Financial Report 2009

European Bank
for Reconstruction and Development

Contents

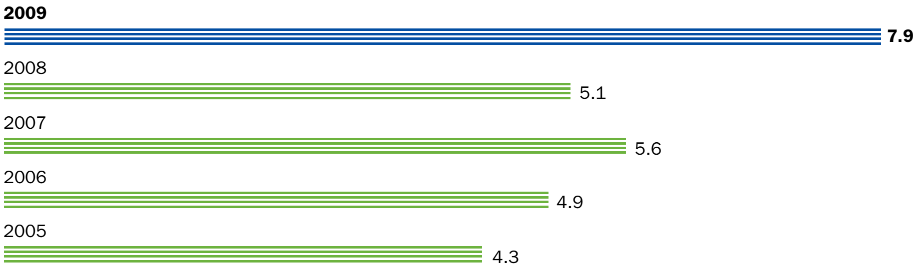
The illustration on the cover of this publication was inspired in part by the theme of recovery and sustainable growth, and also by the roof tiles of St Mark's Church in Zagreb, Croatia, the location of the Bank's Annual Meeting in 2010.

ABOUT THE EBRD
The EBRD is an international financial institution that supports projects from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies. In its operations the EBRD follows the highest standards of corporate governance and sustainable development.

The *Financial Report 2009* includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement Establishing the European Bank for Reconstruction and Development and Section 13 of its By-Laws. It also contains a separate statement on the Special Funds resources, in accordance with Article 10 of the Agreement Establishing the Bank.

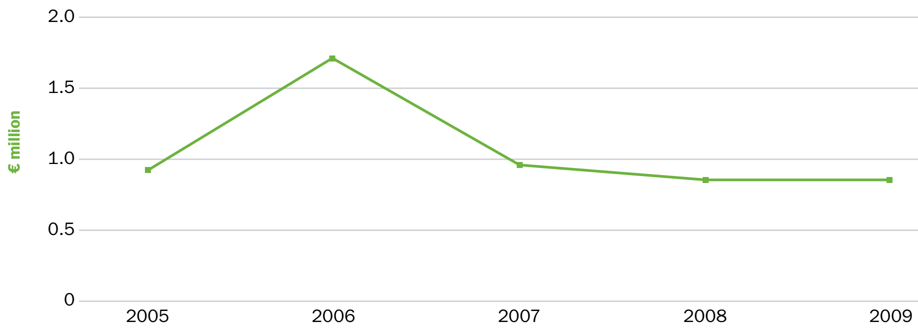
Highlights

EBRD commitments 2005-09*
€ billion



* "Commitments" signifies EBRD financing committed under signed agreements.

Realised profit for the year before impairment 2005-09



FINANCIAL RESULTS 2005-09

€ million	2009	2008	2007	2006	2005
Realised profit for the year before impairment	849	849	973	1,691	945
Unrealised (losses)/gains on equity investments	(630)	(1,092)	773	754	375
Impairment (charge)/credit	(823)	(720)	210	(42)	196
Fair value movement on non-qualifying and ineffective hedges	123	361	(72)	(14)	6
Net (loss)/profit for the year before transfers of net income approved by the Board of Governors	(746)	(602)	1,884	2,389	1,522
Transfers of net income approved by the Board of Governors	(165)	(115)	-	-	-
Net (loss)/profit for the year after transfers of net income approved by the Board of Governors	(911)	(717)	1,884	2,389	1,522
Paid-in capital	5,198	5,198	5,198	5,198	5,197
Reserves and retained earnings	6,317	6,552	8,676	6,974	4,684
Total members' equity	11,515	11,750	13,874	12,172	9,881

ANNUAL INVESTMENTS 2005-09

	2009	2008	2007	2006	2005	Cumulative 1991-2009
Number of projects[1]	311	302	353	301	276	2,835
- Stand-alone projects	184	161	187	167	156	1,830
- Investments under frameworks	127	141	166	134	120	1,005
EBRD commitments (€ million)[2]	7,861	5,087	5,583	4,936	4,277	47,684
Resources mobilised (€ million)[2]	10,347	8,372	8,617	7,645	5,846	98,797
Total project value (€ million)[2]	18,087	12,889	13,809	12,014	9,784	147,435

[1] An operation that is not linked to a framework and involves only one client is referred to as a stand-alone project. Operations extended to a number of clients (for example, credit lines to banks) have a framework which represents the overall amount approved by the Board. Investments under frameworks represent the commitment to individual clients.

[2] The calculation of "Resources mobilised" and "Total project value" has been refined to exclude amounts relating to facilities where the original commitment was made in a previous year to ensure the finance is counted only once, whereas "EBRD commitments" include incremental EBRD finance on existing operations.

Financial results

Net realised profit before Banking loan provisions, unrealised equity losses and other unrealised amounts
€ million

849

The Bank recorded a net realised profit before Banking loan provisions, unrealised equity losses and other unrealised amounts of €849 million, in line with the realised profit of €849 million recorded in 2008. Including unrealised amounts, the Bank recorded a net loss of €746 million for 2009 before transfers of net income approved by the Board of Governors, compared with a net loss of €602 million for 2008. The loss for the year reflects the impact of the global financial crisis on the Bank's loan and equity portfolios. Specifically, Banking loan provisions increased by €430 million compared with last year. This was partially offset by a decrease in net equity losses of €369 million (mainly due to the recovery in prices of listed share investments fair valued through the profit and loss). The loss for the year also reflects the decrease in the fair value movement on non-qualifying and ineffective hedges of €238 million.

Reserves
€ billion

6.3

[3] Equivalent to, or above, an external rating of BBB-/Baa3/BBB- in line with Standard & Poor's/Moody's/Fitch ratings.

A reconciliation of the realised profit before impairment and the financial accounting net loss for the year is shown below.

		2009 € million		2008 € million
Realised profit before impairment		**849**		849
Unrealised losses on FVTPL share investments and equity derivatives	**(630)**		(1,092)	
Impairment charge on AFS investments	**(256)**		(488)	
Provisions for impairment of loan investments	**(567)**		(232)	
Unrealised fair value movement on non-qualifying and ineffective hedges	**(142)**		361	
		(1,595)		(1,451)
Financial accounting net loss before transfers of net income		**(746)**		(602)

Note: FVTPL – fair value through profit or loss, AFS – available-for-sale.

Of the €567 million provisions for impairment of loan investments, €535 million relates to Banking loan investments (2008: €105 million). Banking loan impairments include general portfolio provisions of €364 million (2008: €63 million) and specific provisions of €171 million (2008: €42 million). The main contributors to this increase include an increase in project downgrades, increased disbursements and an increase in the general loan provision rates. Despite the increase in Banking loan provisions, total non-performing loans have remained relatively low, representing 2.3 per cent of total Banking loans.

While listed equity investments recovered to values above those recorded in 2008, the values of unlisted equity investments at year-end were lower than those recorded in 2008. However, in total, the value of the Bank's equity investment remains above cost.

The Bank's reserves decreased by €0.3 billion during the year to €6.3 billion (2008: €6.6 billion). The decrease reflects the net loss for the year, offset by an improvement in the fair value of available-for-sale share investments through reserves.

Despite the impact of the financial crisis, the Bank maintained its strong capital position during the year, with members' equity and callable capital totalling €26.1 billion at 31 December 2009 (2008: €26.3 billion). This compared with Banking risk assets of €17.9 billion at the end of the year (2008: €15.3 billion). Treasury assets of €12.2 billion at 31 December 2009 were of a high credit quality, with 93 per cent of Treasury transactions being of investment-grade quality[3] (2008: €13.9 billion and 97 per cent). The Bank continues to be able to borrow at favourable rates, demonstrates high levels of liquidity and enjoys the strong support of its shareholders.

The performance of the Bank's two operating segments, Banking and Treasury, is discussed below.

Reported annual business volume
€ billion

7.9

[4] The flow of commitments made by the Bank in the year, less cancellations or sales of such commitments within the same time period.

BANKING OPERATIONS

Annual business volume and portfolio

Reported annual business volume[4] amounted to €7.9 billion in 2009, comprising 311 projects and 58 outstanding balances under the 2009 trade facilitation programme (2008: €5.1 billion, 302 projects and 65 trade finance balances). This record level of annual business volume reflects the Bank's robust support to the Bank's countries of operations during the financial crisis, with close to two-thirds of the finance provided as crisis response finance. Much of this assistance was provided to the financial sector where the Bank has been an active driving force and a participant in the Joint International Financial Institution (IFI) Action Plan, a collaboration between the European Bank for Reconstruction and Development, the World Bank and the European Investment Bank to support banks investing in central and eastern European countries. The focus of the Bank's investments remained on the private sector, with 83 per cent of 2009 business volume directed to clients in the private sector (2008: 84 per cent).

Reflecting the Bank's strategic focus, activity levels were strong in the early transition countries (ETC) and particularly the Western Balkans where volume increased by 36 per cent from €534 million in 2008 to €727 million in 2009. The active implementation of the Bank's Sustainable Energy Initiative continued and resulted in sustainable energy investments exceeding €1.3 billion, up 34 per cent from 2008 investments of close to €1 billion.

Net cumulative business volume reached €47.7 billion by the end of 2009 (2008: €41.7 billion). Including co-financing and third-party finance, this amounted to a total project value of €147.4 billion (2008: €134.8 billion). The Bank's portfolio grew from €21.5 billion at the end of 2008 to €25.6 billion at the end of 2009. Reflows were 18 per cent higher than in 2008, reflecting robust repayment levels from the Bank's loan portfolio. The record annual business volume resulted in a portfolio growth of 19 per cent during 2009 compared with 11 per cent in 2008. The portfolio growth rate was also influenced by the strengthening of the euro relative to the US dollar by approximately 2 per cent to a year-end rate of €/$1.44 from €/$1.41 at the end of 2008.

The Board approved loan and equity investments of €9.1 billion in 2009 compared with €5.2 billion in 2008, an increase of 75 per cent. At the end of 2009, cumulative Board approvals, net of cancellations, totalled €53.8 billion (2008: €46.0 billion).

Net cumulative business volume
€ billion

47.7

Gross disbursements reached a record level of €5.5 billion in 2009, a 10 per cent increase on the 2008 level of €5.0 billion. Operating assets amounted to €17.8 billion (2008: €15.3 billion), comprising €13.1 billion of disbursed outstanding loans (2008: €10.9 billion) and €4.7 billion of disbursed outstanding equity investments at fair value (2008: €4.4 billion).

The Bank attracted a significant additional amount of co-financing funds in 2009, which reached €5.1 billion (2008: €2.4 billion). The Bank mobilised €2.3 billion from private co-financiers (2008: €1.9 billion) and €2.8 billion from public co-financiers (2008: €0.5 billion), of which €2.7 billion came from IFIs (2008: €0.4 billion). In addition, the Bank's activities continued to be strongly supported by donor funding, including the Special Funds programme and Technical and Investment Cooperation Funds.

Financial performance

Banking operations recorded a net loss of €878 million for 2009 (2008: loss of €862 million). The principal factors contributing to this result were a reduction in unrealised equity losses (due to the improvement of listed equity prices) and a reduction in interest expense. These improvements were offset by an increase in the loan provisions and an increase in the net deferral and amortisation of fees and direct costs.

The contribution from equity investments to the Bank's income statement is expected to continue to show significant variability from year to year, given its dependence on the timing of exits and the volatility of equity markets. Exits are mainly linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to sell its holding. The volatility of the equity markets is expected to result in further variability in the fair value of the Bank's equity investments.

Value of assets under Treasury management at 31 December 2009
€ billion

12.2

TREASURY OPERATIONS

Portfolio

The value of assets under Treasury management at 31 December 2009 was €12.2 billion (2008: €13.9 billion). This included Treasury loans of €5.3 billion (2008: €5.7 billion), debt securities of €2.5 billion (2008: €3.7 billion), €3.2 billion of placements with credit institutions (2008: €3.3 billion) and €1.2 billion of collateralised placements (2008: €1.2 billion).

Financial performance

Treasury operations reported an operating gain of €130 million in 2009 after the full allocation of expenses and the return on net paid-in capital but before the fair value movement on non-qualifying and ineffective hedges (which includes the Bank's capital hedge) as these are not representative of the underlying performance of Treasury. This compared with an operating loss of €101 million on an equivalent basis for 2008. The improved performance was due mainly to Treasury's credit and balance sheet management portfolios which, excluding provisions, recorded a gain of €61 million in 2009 compared with a loss of €63 million in 2008. In addition, impairment losses were lower at €32 million in 2009 compared with €127 million in 2008.

CAPITAL

Paid-in capital totalled €5.2 billion at 31 December 2009 (2008: €5.2 billion). The number of the Bank's subscribed shares stood at almost two million with a value of €19.8 billion. Paid-in capital receivable has been stated at its nominal value on the statement of financial position to reflect future receipts of overdue capital. The amount of overdue cash and promissory notes totalled €17 million at the end of 2009 (2008: €16 million).

RESERVES

The Bank's reserves decreased from €6.6 billion at the end of 2008 to €6.3 billion at the end of 2009, primarily reflecting the net loss for the year, offset by an improvement in the fair value of available-for-sale share investments through reserves.

Unrestricted general reserves decreased by €233 million during the year (2008: decrease of €259 million). This mainly reflected an increase in the impairment of loan investments, an increase in amounts set aside in relation to the loan loss reserve and a decrease in fair value of some Banking investments below cost totalling €1.2 billion (2008: €0.9 billion). These items more than offset the net realised profit before impairment of €849 million for the year (2008: €849 million).

At the 2008 Annual Meeting, the Board of Governors approved the allocation of the Bank's 2007 net income which included a grant of €135 million to be made to the Specialised State Enterprise Chernobyl Nuclear Power Plant. When the grant agreement was signed in February 2009, the grant was recorded below net profit in the Bank's income statement for financial reporting purposes.

At the 2009 Annual Meeting, the Board of Governors approved a reallocation of €30 million from the strategic reserve to the EBRD Shareholder Special Fund. This was paid in May 2009 and is also reflected in the Bank's income statement.

General administrative expenses, including depreciation and amortisation
€ million

237

EXPENSES

The Bank continues to focus on budgetary discipline, effective cost controls and a proactive cost-recovery programme. The Bank's general administrative expenses for 2009, including depreciation and amortisation, were €237 million (2008: €243 million). General administrative expenses in euros decreased in 2009 due to foreign exchange movements. Sterling general administrative expenses for 2009, including depreciation and amortisation, totalled £204 million (2008: £196 million).

OUTLOOK FOR 2010

In 2009, continued volatility in the financial markets had a significant impact on the Bank's results and specifically in relation to loan provisions and on the fair value of its equity portfolio. For 2010, the global slow-down will continue to affect specific businesses, and the recovery in the Bank's region is expected to be slow, heterogeneous across countries, and fraught with risk. As countries shift at different rates from an acute crisis mode to repairing the fall-out from the crisis and nursing a tentative recovery, the Bank's activity must remain responsive to the transition challenges emerging from this diverse operating context. Trends in financial flows to the region and their patterns across different countries will also influence Bank activity.

The Bank will therefore continue to operate in a difficult economic and financial environment. The volatility of local equity markets will continue to have a significant influence on the Bank's financial performance, causing fluctuations in the Bank's income statement and reserves from movements in the fair value of the Bank's share investments. The depressed economic environment in the Bank's region may also lead to more specific credit losses within the Bank's loan portfolio.

The Bank's Board of Governors will consider the Fourth Capital Resources Review (CRR4) at the Annual Meeting in May 2010. This will establish the Bank's strategy for the period 2011 to 2015, together with an assessment of capital requirements.

Additional reporting and disclosures

CORPORATE GOVERNANCE

The EBRD is committed to the highest standards of corporate governance. Responsibilities and related controls throughout the Bank are properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for, and disseminated to, each level of responsibility within the Bank to enable the system of checks and balances on the Bank's activities to function effectively.

The Bank's governing constituent document is the Agreement Establishing the Bank ("the Agreement"), which states that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, officers and staff.

Board of Governors

All the powers of the Bank are vested in the Board of Governors, which represents the Bank's 63 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors, while retaining overall authority.

Board of Directors

The Board of Directors comprises 23 Directors and is chaired by the President. Each Director represents one or more shareholders. Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the Bank's general operations and policies. It exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

Board Committees

The Board of Directors has established three Board Committees to assist with its work.

The **Audit Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the integrity of the Bank's financial statements and its accounting, financial reporting and disclosure policies and practices
- the soundness of the Bank's systems of internal controls that management has established regarding finance and accounting matters and their effective implementation
- the status, the ability to perform duties independently and the performance of the Bank's compliance, internal audit, evaluation and risk management functions
- the independence, qualifications and performance of the Bank's external auditor
- any other responsibilities that the Board may assign to the Committee from time to time.

The **Budget and Administrative Affairs Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the budgetary, staff and administrative resources of the Bank
- efficiency, cost control and budgetary prudence
- overseeing the EBRD Shareholder Special Fund, the use of donor funding and relations with the donor community
- the Bank's Human Resources policies
- specific responsibilities in relation to Governors, the President, Vice Presidents and Directors of the Bank
- policies relating to governance and ethics
- the Bank's administrative arrangements
- other responsibilities within its remit.

The **Financial and Operations Policies Committee** assists the Board of Directors in fulfilling its responsibilities in relation to the following:

- the Bank's financial policies
- the Bank's Treasury operations, Liquidity Policy and Borrowing Programme
- the Bank's operational policies
- the Bank's strategic portfolio management within the framework of the Medium Term Strategy
- transparency and accountability of the Bank's operations within the framework of the Public Information Policy and the Independent Recourse Mechanism (soon to be replaced with the Project Complaint Mechanism)
- other responsibilities within its remit.

The composition of these committees during 2009 is detailed in the separate Review section of the Annual Report. The detailed terms of reference of the Board Committees are available on the Bank's web site.

The President

The President is elected by the Board of Governors. He is the legal representative and chief of staff of the Bank. Under the direction of the Board of Directors, the President conducts the day-to-day business of the Bank.

The President chairs the Bank's Executive Committee, which also includes the Vice Presidents and other members of the Bank's senior management.

Other management committees

Listed below are other management committees that assist the President in the overall management of the Bank.

Management committees	Chair	Purpose of the committee	Meeting frequency
Executive Committee	President	The custodian of all key aspects of the strategy, performance and financial soundness of the Bank.	Weekly
Operations Committee	First Vice President, Banking	Considers all banking transactions at various stages (concept, structure and final reviews) before submission by the President for consideration by the Board of Directors.	Weekly
Equity Committee	First Vice President, Banking	Maintains oversight over listed and unlisted equity investments. Reviews and identifies suitable listed exit opportunities and makes recommendation on such exits to the Operations Committee.	Quarterly
Procurement Complaints Committee	Deputy General Counsel	Considers complaints and disputes arising from tendering and contracts for goods, works and consultant services (including those funded by Technical Cooperation funds or the Bank's budget) subject to the Procurement Policies and Rules or the Corporate Procurement Policy, as the case may be. Reviews procurement and related matters referred to it by the Executive Committee.	As necessary
Technical Cooperation Review Committee	Vice President, Environment, Procurement and Administration	Decides on all transactional and non-transactional Technical Cooperation proposals except those expressly approved by the Board as being subject to an alternative approval process.	Weekly
Information Technology Governance Committee	Vice President, Finance	Ensures that the Bank's IT strategy and business plan support the Bank's business strategy. Establishes the framework for measuring business benefits and oversees the realisation of benefits arising from IT projects. Reviews and approves business requests for budget allocation on new projects from the approved IT budget. Responsible for the implementation of the Information Security Framework.	At least six times per year
Crisis Management Team	Vice President, Finance	Prepares coordinated response to all critical internal and external issues arising in connection with events that affect the normal operations of the Bank. Ensures that the crisis management plan and business recovery plan is in place and is tested on a regular basis.	At least three times per year
Strategic Human Resources Committee	President	Approves all senior appointments.	As necessary

EBRD Codes of Conduct

The Codes of Conduct for Officials of the Board of Directors and for Bank Personnel and Experts, approved in May 2006, articulate the values, duties and obligations, as well as the ethical standards, that the Bank expects of its Board officials and staff. The Bank has established robust compliance enforcement mechanisms and detailed procedures for investigating allegations of suspected misconduct. The Codes of Conduct also affirm the Bank's commitment to protect whistleblowers.

Compliance

The EBRD has an independent Office of the Chief Compliance Officer (OCCO), which is headed by a Chief Compliance Officer (CCO) reporting directly to the President, and annually, or as necessary, to the Audit Committee. The OCCO's mandate is to promote good governance and to ensure that the highest standards of integrity are applied throughout all of the activities of the Bank in accordance with international best practice. The responsibilities of the OCCO include dealing with issues of integrity due diligence, confidentiality, conflicts of interest, corporate governance, accountability, ethics, anti-money laundering, counter-terrorist financing and the prevention of fraudulent and corrupt practices. The OCCO is responsible for investigating allegations of fraud, corruption and misconduct. It also trains and advises, as necessary, Bank staff members who are appointed as directors to the Boards of companies in which the Bank holds an equity interest. Financial and integrity due diligence are integrated into the Bank's normal approval of new business and the monitoring of its existing transactions. The Bank publishes the OCCO's anti-corruption report on its web site.

Moreover, the OCCO has the specific responsibility for administering the Bank's accountability mechanism. This is currently the Independent Recourse Mechanism, soon to be replaced with the Project Complaint Mechanism, which assesses and reviews complaints about Bank-financed projects and provides, where warranted, a determination as to whether in approving a particular project the Bank acted in compliance with its relevant policies. The CCO can be dismissed by the President only in accordance with guidance given by the Board of Directors in an executive session.

Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. The Bank has a functioning mechanism to be able to certify in the *Financial Report 2009* as to the effectiveness of internal controls over external financial reporting, using the Committee of Sponsoring Organisations of the Treadway Commission internal control framework. This annual certification statement is signed by the President and Vice President, Finance and is subject to a review and an attestation by the Bank's external auditors. In addition, the Bank has a comprehensive system of reporting to its Board of Directors and its committees. This includes reporting on the activities of the Evaluation Department and the Internal Audit Department to the Audit Committee.

Operational risk

The Bank defines operational risk as all aspects of risk-related exposure other than those falling within the scope of credit, market and liquidity risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk. Examples include:

- errors or failures in transaction support systems and inadequate disaster recovery planning, including errors in the mathematical formulae of pricing or hedging models, or in the computation of the fair value of transactions
- external events
- damage to the Bank's name and reputation, either directly by adverse comments or indirectly
- errors or omissions in the processing and settlement of transactions, whether in the areas of execution, booking or settlement or due to inadequate legal documentation
- errors in the reporting of financial results or failures in controls, such as unidentified limit excesses or unauthorised trading/trading outside policies
- dependency on a limited number of key personnel, inadequate or insufficient staff training or skill levels.

The Bank has a low tolerance for material losses arising from operational risk exposures. Where material operational risks are identified (that is, those that may lead to material loss if not mitigated), appropriate mitigation and control measures are put in place after a careful weighing of the risk/return trade-off. Maintaining the Bank's reputation is of paramount importance and reputational risk has therefore been included in the Bank's definition of operational risk. The Bank will always take all reasonable and practical steps to safeguard its reputation.

Within the Bank, there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties. These are supplemented with:

- the Bank's Codes of Conduct
- disaster recovery/contingency planning
- the Public Information Policy
- client and project integrity due diligence procedures, including anti-money-laundering measures
- procedures for reporting and investigating suspected staff misconduct, including fraud
- the information security framework
- procurement and purchasing policies, including the detection of corrupt practices in procurement.

Responsibility for developing the operational risk framework and for monitoring its implementation resides within the Risk Management Vice Presidency. Risk Management is responsible for the overall framework and structure to support line managers who control and manage operational risk as part of their day-to-day activities. Risk Management drafts proposals for discussion and review by the Operational Risk Management Group (ORMG), which implements the operational risk management policies and techniques throughout the Bank. The ORMG is chaired by the Vice President, Risk Management and its membership comprises senior managers across the Bank who have been identified as potentially facing the most operational risk within their day-to-day activities. The ORMG's task is to develop and coordinate the Bank's approach to managing operational risk, and to ensure that it is widely implemented across all areas of the Bank.

The Bank's current operational risk framework includes an agreed definition (see above); the categorisation of different loss type events to capture the Bank's exposure to operational risk; a group of key risk indicators to measure such risks; the identification of specific operational risks through an annual self-assessment exercise; internal loss data collection; and use of external loss data.

Departments within the EBRD identify their operational risk exposures and evaluate the mitigating controls that help to reduce the inherent or pre-control risk. Each risk (both inherent and post control) is assessed for its impact, according to a defined value scale and the likelihood of occurrence, based on a frequency-by-time range. Departments also report operational risk incident losses or near misses above €5,000. The intention of collecting such data is primarily to improve the control environment by taking into account the cost of control strengthening and perceived potential future losses. The Bank is a member of GOLD, the external loss database where members "pool" operational risk incident information over a monetary threshold. This provides the Bank with access to a depth of information wider than its own experience and supplements analysis undertaken on internal incidents reported. GOLD is run as an unincorporated not-for-profit consortium of financial services institutions.

External auditors

The external auditors are appointed by the Board of Directors, on the recommendation of the President, for a four-year term. No firm of auditors can serve for more than two consecutive four-year terms. In relation to the 2009 audit, the Bank's auditors, PricewaterhouseCoopers LLP, are in the third year of their second term. The external auditors perform an annual audit to enable them to express an opinion on whether the financial statements present fairly the financial position and the profit of the Bank in accordance with International Financial Reporting Standards. In addition, the external auditors review and offer their opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion. At the conclusion of their annual audit, the external auditors prepare a management letter for the Board of Governors, setting out the external auditors' views and management's responses on the effectiveness and efficiency of internal controls and other matters. This letter is reviewed in detail and discussed with the Audit Committee. The performance and independence of the external auditors is subject to review on an annual basis by the Audit Committee.

There are key provisions in the Bank's policies regarding the independence of the external auditors. The external auditors are prohibited from providing non-audit related services unless such service is judged to be in the interest of the Bank and if it is approved by the Audit Committee. However, the external auditors can provide technical cooperation consultancy services relating to client projects; such incidents are reported periodically to the Audit Committee.

COMPENSATION POLICY

The Bank has designed a market-oriented staff compensation policy, within the constraints of the Bank's status as a multilateral institution, to meet the following objectives:

- to be competitive in order to attract and retain high-calibre employees
- to take account of differing levels of responsibility
- to support a climate of constant staff development
- to be sufficiently flexible to respond rapidly to the market
- to motivate and encourage excellent performance.

To help meet these objectives, the Bank's shareholders have agreed that the Bank should use market comparators to evaluate its staff compensation and that salary and performance-based compensation awards should be driven by performance. Market comparators for the Bank are primarily private sector financial institutions in each of its locations plus other IFIs.

The performance-based compensation awards are structured to recognise individual and team contributions to the Bank's overall performance. These payments represent a limited proportion of the overall total compensation and benefits package provided to staff.

EBRD personnel remuneration

All personnel on fixed-term or regular contracts receive a salary which is reviewed on 1 April each year. In addition, professional members of staff are eligible to receive a performance-based compensation award depending on the Bank's and individual staff member's performance.

All fixed-term and regular employees, as well as most of the Board of Directors,[5] the President and Vice Presidents, are covered by medical insurance, participate in the Bank's retirement plans and may be eligible to receive a mortgage subsidy. Professional staff hired from abroad may be eligible for Expatriate/Third Country National status and receive, subject to specific conditions, allowances to assist with relocation, accommodation (to defray the cost of renting or purchasing a home) and the education of their children.

There are two retirement plans in operation; both plans provide a lump sum benefit on leaving the Bank or at retirement age, such that retirement plan obligations to staff once they have left the Bank or retired are minimal (being limited to inflation adjustments on deferred retirement plan benefits under the Final Salary Plan). The Money Purchase Plan is a defined contribution scheme to which both the Bank and staff contribute, with Plan members making individual investment decisions. The Final Salary Plan is a defined benefit scheme to which only the Bank contributes. The rules for the retirement plans are approved by the Board of Directors and are monitored by a Retirement Plan Committee, a Retirement Plan Administration Committee and a Retirement Plan Investment Committee.

The salaries and emoluments of all personnel are subject to an internal tax, applied at rates that vary according to the individual's salary and personal circumstances. Their salaries and emoluments are exempt from national income tax in the United Kingdom.

[5] Some Directors and Alternates are paid directly by their constituency and do not participate in the Bank's retirement plans and/or other benefits.

[6] As salaries are paid in sterling, exchange rates have an impact on year-on-year comparisons.

President and Vice Presidents

The President is elected by the Board of Governors and typically receives a fixed-term contract of four years. His salary and benefits are approved by the Board of Governors. The President can participate in the same benefit schemes as the staff but he is not eligible for performance-based compensation awards.

The Vice Presidents are appointed by the Board of Directors on the recommendation of the President and typically have fixed-term contracts of four years. Their salaries and benefits are approved by the Board of Directors. The Vice Presidents can participate in the same benefit schemes as staff but are not eligible for performance-based compensation awards.

The gross salary, from which internal tax is deducted, for each of these positions is as follows:

	2009 € 000[6]	2008 € 000
President	346	377
First Vice President, Banking	307	343
Vice President, Finance	280	313
Vice President, Risk Management, Human Resources and Nuclear Safety	280	313
Vice President, Environment, Procurement and Administration	256	286

Board of Directors

Directors are elected by the Board of Governors for a term of three years and may be re-elected. Directors appoint Alternate Directors. The salaries of Directors and Alternate Directors are approved by the Board of Governors. They can participate in the same benefit schemes as staff but are not eligible for performance-based compensation awards. Some Directors and Alternates are paid directly by the directorship that they represent. In such cases, the funds that would otherwise be used by the Bank to pay such Directors and Alternates are made available to the directorship to offset other eligible costs to the directorship.

The most recently approved gross salaries, from which internal tax is deducted, for these positions are as follows:

	2009 € 000[6]	2008 € 000
Director	148	165
Alternate Director	122	137

Senior management

Senior management comprises: members of the Bank's Executive Committee; Managing Directors; Corporate Directors; the Treasurer; the Director, Risk Management; the Controller; the Head of Internal Audit; and the CCO. This group, excluding the President and Vice Presidents (for whom information is given above), consists of 20 individuals who received gross salaries, from which internal tax is deducted, in the range of €113,000 to €214,000 (2008: €148,000 to €231,000) with an average performance-based compensation award of 25 per cent in 2009 (2008: 32 per cent).

Income statement

These financial statements have been approved for issue by the Board of Directors on 23 February 2010.

For the year ended 31 December 2009	Note	Year to 31 December 2009 € million	Year to 31 December 2008 € million
Interest and similar income			
From Banking loans		648	668
From fixed-income debt securities and other interest		240	632
Interest expense and similar charges		(306)	(633)
Net interest income	3	582	667
Net fee and commission income	4	14	6
Dividend income		40	68
Net losses from share investments at fair value through profit or loss	5	(547)	(892)
Net losses from available-for-sale share investments	6	(241)	(265)
Net losses from Treasury investments	7	(9)	(2)
Net gains/(losses) from dealing activities at fair value through profit or loss	8	95	(69)
Foreign exchange movement		1	(1)
Fair value movement on non-qualifying and ineffective hedges	9	123	361
Provisions for impairment of Banking loan investments	10	(535)	(105)
Provisions for impairment of Treasury loan investments	11	(32)	(127)
General administrative expenses	12	(220)	(227)
Depreciation and amortisation	20,21	(17)	(16)
Net loss for the year from continuing operations		(746)	(602)
Transfers of net income approved by the Board of Governors	26	(165)	(115)
Net loss after transfers of net income approved by the Board of Governors		(911)	(717)
Attributable to:			
Equity holders		(911)	(717)

Pages 23 to 97 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2009	Year to 31 December 2009 € million	Year to 31 December 2008 € million
Net loss after transfers of net income approved by the Board of Governors	**(911)**	(717)
Other comprehensive income/(expense)		
Available-for-sale financial assets	**635**	(1,360)
Cash flow hedges	**37**	(52)
Total comprehensive expense	**(239)**	(2,129)
Attributable to:		
Equity holders	**(239)**	(2,129)

Pages 23 to 97 are an integral part of these financial statements.

Statement of financial position

At 31 December 2009	Note	€ million	31 December 2009 € million	€ million	31 December 2008 € million
Assets					
Placements with and advances to credit institutions	13	3,247		3,344	
Debt securities					
At fair value through profit or loss		222		1,213	
Available-for-sale		1,012		1,263	
Held-to-maturity	14	1,239		1,157	
		2,473		3,633	
Collateralised placements	15	1,171		1,163	
			6,891		8,140
Other financial assets	16				
Derivative financial instruments		2,538		2,849	
Other financial assets		483		1,139	
			3,021		3,988
Loan investments					
Treasury portfolio:	17				
Loans		5,484		5,811	
Less: Provisions for impairment		(163)		(134)	
		5,321		5,677	
Banking portfolio:					
Loans	18	13,125		10,930	
Less: Provisions for impairment	10	(719)		(227)	
		12,406		10,703	
			17,727		16,380
Share investments					
Banking portfolio:	19				
Share investments at fair value through profit or loss		2,279		2,310	
Available-for-sale share investments		2,455		2,054	
		4,734		4,364	
Treasury portfolio:					
Available-for-sale share investments		57		42	
			4,791		4,406
Intangible assets	20		53		48
Property, technology and office equipment	21		39		41
Paid-in capital receivable			17		44
Total assets			32,539		33,047
Liabilities					
Borrowings					
Amounts owed to credit institutions	22	2,129		2,141	
Debts evidenced by certificates	23	17,715		16,295	
			19,844		18,436
Other financial liabilities	24				
Derivative financial instruments		803		1,519	
Other financial liabilities		377		1,342	
			1,180		2,861
Total liabilities			21,024		21,297
Members' equity attributable to equity holders					
Subscribed capital	25	19,794		19,794	
Callable capital	25	(14,596)		(14,596)	
Paid-in capital			5,198		5,198
Reserves and retained earnings	26		6,317		6,552
Total members' equity			11,515		11,750
Total liabilities and members' equity			32,539		33,047
Memorandum items					
Undrawn commitments	27		7,716		6,469

Pages 23 to 97 are an integral part of these financial statements

Statement of changes in equity

At 31 December 2009	Subscribed capital € million	Callable capital € million	Available-for-sale revaluation reserve € million	Cash flow reserves € million	Retained earnings € million	Total equity € million
At 31 December 2007	19,794	(14,596)	1,855	-	6,821	13,874
Total comprehensive income for the year	-	-	(1,360)	(52)	(717)	(2,129)
Internal tax for the year	-	-	-	-	5	5
At 31 December 2008	19,794	(14,596)	495	(52)	6,109	11,750
Total comprehensive income for the year	-	-	635	37	(911)	(239)
Internal tax for the year	-	-	-	-	4	4
At 31 December 2009	**19,794**	**(14,596)**	**1,130**	**(15)**	**5,202**	**11,515**

Refer note 26 “Reserves and retained earnings” on page 89 for a further explanation of the Bank’s reserves.

Pages 23 to 97 are an integral part of these financial statements.

Statement of cash flows[7]

Pages 23 to 97 are an integral part of these financial statements.

For the year ended 31 December 2009	€ million	Year to 31 December 2009 € million	€ million	Year to 31 December 2008 € million
Cash flows from operating activities				
Net loss for the year[8]	(911)		(717)	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	(3)		-	
Interest income	(888)		(1,300)	
Interest expenses and similar charges	306		633	
Net deferral of fees and direct costs	108		47	
Internal taxation	4		5	
Realised gains on share investments and equity derivatives	(98)		(420)	
Unrealised losses on share investments at fair value through profit or loss	630		1,092	
Impairment losses on available-for-sale share investments	256		485	
Realised losses/(gains) on available-for-sale debt securities	3		(1)	
Unrealised gains on dealing securities	(11)		(102)	
Fair value movement on capital receivable and associated hedges	(123)		(361)	
Fair value movement on Treasury assets	(101)		(1,760)	
Foreign exchange (gains)/losses	(1)		1	
Depreciation and amortisation	17		16	
Provisions for impairment of Treasury loan investments and debt securities	32		130	
Gross provisions charge for Banking loan losses	535		107	
	(245)		(2,145)	
Interest income received	974		1,291	
Interest expenses and similar charges paid	(328)		(609)	
(Increase)/decrease in operating assets:				
Prepaid expenses	(231)		(10)	
Proceeds from repayments of Banking loans	3,165		3,236	
Proceeds from prepayments of Banking loans	461		169	
Funds advanced for Banking loans	(6,090)		(5,304)	
Proceeds from sale of Banking share investments	297		807	
Funds advanced for Banking share investments	(810)		(1,212)	
Net placements to/(from) credit institutions	746		(81)	
Increase/(decrease) in operating liabilities:				
Accrued expenses	73		(81)	
Net cash used in operating activities		(1,988)		(3,939)
Cash flows used in investing activities				
Proceeds from repayments of Treasury loans	411		637	
Purchases of Treasury loans	-		(924)	
Proceeds from sale of available-for-sale debt securities	2,393		964	
Purchases of available-for-sale debt securities	(1,635)		(635)	
Proceeds from the redemption of held-to-maturity debt securities	2,325		474	
Purchases of held-to-maturity debt securities	(2,823)		(1,650)	
Proceeds from sale of debt securities held at fair value through profit or loss	878		27	
Purchases of debt securities held at fair value through profit or loss	(52)		(42)	
Purchases of intangible assets, property, technology and office equipment	(20)		(23)	
Net cash from/(used in) investing activities		1,477		(1,172)
Cash flows from financing activities				
Capital received	30		59	
Issue of debts evidenced by certificates	10,644		14,447	
Redemption of debts evidenced by certificates	(9,494)		(11,979)	
Net cash from financing activities		1,180		2,527
Net decrease in cash and cash equivalents		669		(2,584)
Cash and cash equivalents at beginning of the year		434		3,018
Cash and cash equivalents at 31 December		1,103		434

Cash and cash equivalents comprise the following amounts with less than three months maturity	2009 € million	2008 € million
Placements with and advances to credit institutions	3,232	2,575
Amounts owed to credit institutions	(2,129)	(2,141)
Cash and cash equivalents at 31 December	1,103	434

[7] The cash flows statement has been prepared using the indirect method.
[8] Operating profit included dividends of €40 million received for the year to 31 December 2009 (2008: €68 million).

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. In addition, financial assets and liabilities subject to amortised cost measurement, where they form part of a qualifying hedge relationship, have been accounted for in accordance with hedge accounting rules – see “Derivative financial instruments and hedge accounting” on page 31. The financial statements have been prepared on a going concern basis. The going concern assessment takes into account the Bank’s capital adequacy (see the “Capital management” section on page 66), liquidity (see the “Liquidity risk” section on page 64) and other factors.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in “Critical accounting estimates and judgements” on page 37.

Standards, amendments to published standards and interpretations effective in 2009

IFRS 7, Financial Instruments: Disclosures (Amendment), is effective for accounting periods beginning on or after 1 January 2009. This amendment enhances the disclosures about fair values and liquidity risk. Specifically, the amendment requires financial instruments measured at fair value to be classified into a three level hierarchy. The categorisation within the three levels depends on whether the inputs into the fair value are based on observable market data. Additional disclosures are required for fair values not based on observable market data. A sensitivity analysis is also required to show how profit or loss and reserves would be affected by a change in fair value assumptions. The amendment also clarifies that the disclosures for liquidity risk should include both derivative and non-derivative financial instruments.

IFRS 8, Operating Segments, is effective for accounting periods beginning on or after 1 January 2009. It replaces IAS 14 and requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision-maker when deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The adoption of this standard has not had an impact on the operating segments of the Bank and the disclosures are based on financial information provided to the President on a regular basis.

IAS 1 (Revised), Presentation of Financial Statements, is effective for accounting periods beginning on or after 1 January 2009. The revised standard requires the separate presentation of changes in equity arising from transactions with owners in their capacity as owners from non-owner changes in equity. The revised standard also requires separate disclosure of other comprehensive income. In addition, where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position at the beginning of the comparative period. The adoption of this revised standard has resulted in enhanced financial statement disclosures, and in particular, the addition of the statement of comprehensive income.

IAS 32 and IAS 1 (Amendment), Puttable Financial Instruments and Obligations Arising on Liquidation, is effective for accounting periods beginning on or after 1 January 2009. It requires particular types of financial instruments that meet the definition of a financial liability but represent the residual interest in the net assets of the entity to be classified as equity instruments. Financial instruments are classified as equity instruments if they meet the definition of puttable financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. The adoption of this amendment has not had a significant impact on the Bank.

IAS 39 and IFRIC 9 (Amendment), Embedded Derivatives, is effective for accounting periods ending on or after 30 June 2009. It requires an entity to assess whether an embedded derivative needs to be separated from the host contract when an entity first becomes a party to the contract. Subsequent re-assessment is prohibited unless there is either a change in the terms of the contract that significantly modifies the cash flows or a reclassification of the financial asset out of the fair value through profit and loss category. The adoption of this amendment has not had an impact on the Bank.

A number of existing standards were revised by the IASB in May 2008 as part of the IFRS improvements project. The following amendments are relevant to the Bank, but they do not have a significant impact on the Bank's financial statements:

- IAS 1, Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (effective for accounting periods beginning on or after 1 January 2009)
- IAS 10, Events after the Reporting Period (effective for accounting periods beginning on or after 1 January 2009)
- IAS 18, Revenue (effective for accounting periods beginning on or after 1 January 2009)
- IAS 19, Employee Benefits (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23, Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27, Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 28, Investments in Associates and IAS 31 Interests in Joint Ventures (effective for accounting periods beginning on or after 1 January 2009)
- IAS 34, Interim Financial Reporting (effective for accounting periods beginning on or after 1 January 2009)

- IAS 36, Impairment of Assets (effective for accounting periods beginning on or after 1 January 2009)
- IAS 38, Intangible Assets (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 7, Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2009).

Early adoption of standards
No standards were early adopted by the Bank in 2009.

Standards, amendments to published standards and interpretations effective in 2009 but not relevant to the Bank's financial statements
The following standards, amendments to published standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Bank's operations:

- IAS 23 (Amendment), Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 1 (Amendment), First Time Adoption of IFRS and IAS 27 (Amendment), Consolidated and Separate Financial Statements, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 2 (Amendment), Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009)
- IFRS for SMEs, International Financial Reporting Standard for Small and Medium-sized Entities (effective immediately on issue)
- IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
- IFRIC 15, Agreements for Construction of Real Estates (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation Owner (effective for accounting periods beginning on or after 1 October 2008).

A number of existing standards were revised by the IASB in May 2008 as part of the IFRS improvements project. The following amendments are not relevant to the Bank's operations:

- IAS 16, Property, Plant and Equipment (effective for accounting periods beginning on or after 1 January 2009)
- IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (effective for accounting periods beginning on or after 1 January 2009)
- IAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 January 2009)
- IAS 40, Investment Property (effective for accounting periods beginning on or after 1 January 2009)
- IAS 41, Agriculture (effective for accounting periods beginning on or after 1 January 2009).

Standards, amendments to published standards and interpretations that are not yet effective and have not been adopted early by the Bank

The following standards, amendments to published standards and interpretations are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods, and the Bank has not adopted them early:

IFRS 9, Financial Instruments Part 1: Classification and Measurement, is effective for accounting periods beginning on or after 1 January 2013. The standard simplifies the classification of financial assets into two categories, those that are measured at amortised cost and those that are fair valued. To be eligible for amortised cost measurement, the financial asset must have only basic debt features and the business model objective of the entity is to hold the financial asset to collect contractual cash flows. All other financial assets are included in the fair value category. On initial recognition, an entity holding equity instruments can elect to recognise changes in fair value through profit or loss or through other comprehensive income for equity investments not held for trading. The Bank is currently considering the implications of the standard.

IAS 24 (Revised), Related Party Disclosures, is effective for accounting periods beginning on or after 1 January 2011. The standard simplifies the definition of related party and provides partial exemption from the disclosure requirements for government-related entities. The Bank's initial interpretation is that it will not have a significant impact on its financial statements.

IAS 27 (Revised), Consolidated and Separate Financial Statements, is effective for accounting periods beginning on or after 1 July 2009. It reduces the alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for subsidiaries in the separate financial statements of a parent, venturer or investor. The standard specifies the circumstances in which an entity must consolidate the financial statements of a subsidiary; the accounting for the changes in the level of ownership interest in a subsidiary; the accounting for the loss of control of a subsidiary; and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiary. The Bank will apply IAS 27 (Revised) from its accounting period beginning 1 January 2010. The Bank's initial interpretation is that it will not have a significant impact on its financial statements.

IAS 39 (Amendment), Eligible Hedged Items, is effective for accounting periods beginning on or after 1 July 2009. It clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The Bank will apply IAS 39 (Amendment) from its accounting period beginning 1 January 2010. However, based on its existing hedging relationships, the Bank does not consider that the amendment will have a significant impact on its financial statements.

IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement, is effective for accounting periods beginning on or after 1 January 2011. The amendment clarifies the treatment of early payment contributions in circumstances where an entity is subject to minimum funding requirements. The amendment permits such an entity to treat such early payment as an asset. The Bank's initial interpretation is that it will not have a significant impact on its financial statements.

A number of existing standards were revised by the IASB in April 2009 as part of the IFRS improvements project. The following amendments are relevant to the Bank, but the Bank's initial interpretation is that they will not have a significant impact on the Bank's financial statements:

- IAS 1, Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2010)
- IAS 7, Statement of Cash Flows (effective for accounting periods beginning on or after 1 January 2010)
- IAS 17, Leases (effective for accounting periods beginning on or after 1 January 2010)
- IAS 36, Impairment of Assets (effective for accounting periods beginning on or after 1 January 2010)
- IAS 38, Intangible Assets (effective for accounting periods beginning on or after 1 July 2009)
- IAS 39, Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2010)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2010).

Amendments to published standards and interpretations that are not yet effective and not relevant to the Bank's financial statements

The following amendments to published standards and interpretations are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods, but are not relevant to the Bank's operations:

- IAS 28 (Amendment), Investments in Associates – Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 31 (Amendment), Interests in Joint Ventures – Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 32 (Amendment), Financial Instruments: Presentation – Amendments relating to classification of rights issues (effective for accounting periods beginning on or after 1 February 2010)
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease (effective for accounting periods beginning on or after 1 January 2010)
- IFRS 2 (Amendment), Share-based Payment – Amendments relating to group cash-settled share-based payment transactions (effective for accounting periods beginning on or after 1 January 2010)
- IFRS 3 (Revised), Business Combinations (effective for accounting periods beginning on or after 1 July 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009)
- IFRIC 18, Transfers of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009)
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010).

A number of existing standards were revised by the IASB in May 2008 and April 2009 as part of the IFRS improvements project. The following amendments are not relevant to the Bank's operations:

- IFRS 2, Share-based Payment (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (effective for accounting periods beginning on or after 1 July 2009 and 1 January 2010)
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 July 2009).

B. SIGNIFICANT ACCOUNTING POLICIES

Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments. Management determines the classification of its investments upon initial recognition with the exception of those reclassified under the amendment to IAS 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market upon initial recognition or reclassification, other than:

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank designates at fair value through profit or loss upon initial recognition
- those that the Bank designates as available-for-sale upon initial recognition
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables originated by the Bank are recognised at settlement date and measured at amortised cost using the effective interest method less any provision for impairment or un-collectability, unless they form part of a qualifying hedging relationship with a derivative position. This principally occurs in cases of fixed rate loans that, through association with individual swaps, are transformed from a fixed rate basis to a floating rate basis. In such cases, the loan is re-measured to fair value in respect of interest rate risk. The change in value is then reported in the income statement as an offset to the change in value of the related swap if the hedge relationship is highly effective – see "Derivative financial instruments and hedge accounting" on page 31 for details. Pursuant to the amendment to IAS 39, if an instrument previously classified as available-for-sale subsequently satisfies the definition of loans and receivables, then it may be reclassified. Once reclassified, the loan is held at amortised cost and interest is recognised using the effective interest rate on the date of reclassification. The Bank opted to reclassify a substantial portion of its available-for-sale debt securities portfolio into the category loans and receivables effective 1 July 2008, on the basis that the market for those securities had become inactive and the Bank has the intention and ability to hold the securities for the foreseeable future.

Collateralised placements are carried at amortised cost. These are structures wherein the risks and rewards associated with the ownership of a reference asset are transferred to another party through the use of a "total return" swap contract, and are a form of collateralised lending.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- a derivative, except those forming part of a designated and effective hedging relationship.

The Bank classifies assets acquired for the purpose of generating profits from short-term price fluctuations as held for trading. Such assets are accounted for at fair value on the basis of independent market quotations, with all changes in value recorded through the income statement as they occur.

Financial assets are designated at fair value through profit or loss upon initial recognition when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost
- certain investments, such as share investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss
- financial instruments, such as debt securities, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit and loss.

The Bank designates associate share investments and high-risk equity funds at fair value through profit or loss upon initial recognition using the IAS 28 "Venture capital" exemption, as the Bank considers these to be venture capital investments. Such assets are carried at fair value on the statement of financial position with changes in fair value included in the income statement in the period in which they occur. The basis of fair value for listed associate share investments and high risk equity funds in an active market is the quoted bid market price on the statement of financial position date. The basis of fair value for associate share investments and high risk equity funds that are either unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are net asset value and earnings based valuations using comparable information and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

All debt securities held in externally managed funds have been designated at fair value through profit or loss upon initial recognition as they are managed and evaluated on a fair value basis in accordance with the documented investment strategy.

Securities purchased as part of a negative basis strategy, where credit risk on the security has been mitigated through the purchase of an associated credit default swap, have been designated at fair value through profit or loss. This significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the bond and related derivative on different bases.

Financial assets measured at fair value through profit or loss are recognised/derecognised at trade date – the date on which the Bank commits to purchase or sell the asset.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Purchases and sales of available-for-sale assets are recognised at trade date.

With the exception of those share investments designated at fair value through profit or loss, the Bank classifies all other share investments as available-for-sale. Such assets are carried at fair value on the statement of financial position. Changes in fair value, including translation differences arising on assets denominated in foreign currencies, are recognised directly in reserves until the financial asset is sold or impaired. At this time the cumulative gain or loss previously recognised in reserves is removed and included in the income statement. The basis of fair value for available-for-sale share investments listed in an active market is the quoted bid market price on the statement of financial position date. The basis of fair value for available-for-sale share investments that are unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are net asset value and earnings based valuations using comparable information and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

A portion of the Treasury debt securities portfolio is classified as available-for-sale. Such assets are carried at fair value on the statement of financial position with fair values determined by bid quotes from third-party sources. Changes in fair value, excluding translation differences arising on assets denominated in foreign currencies, are recognised directly in reserves until the financial asset is sold or impaired. At this time the cumulative gain or loss previously recognised in reserves is removed and included in the income statement. Foreign currency translation differences arising on Treasury available-for-sale debt assets are recognised in the income statement.

Where an available-for-sale asset is the hedged item in a qualifying fair value hedge, the fair value gain or loss attributable to the risk being hedged is reported in the income statement rather than reserves. This is to ensure there is consistency of reporting, as the fair value changes on the derivative acting as the hedge must be reported in the income statement. Hedge accounting features in Treasury positions where asset swaps are used to transform the returns on fixed interest rate securities to a floating rate basis.

Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the intention and ability to hold to maturity. The Bank classifies short-dated instruments such as commercial paper and government-issued bills in this category.

Financial liabilities
Financial liabilities at fair value through profit or loss
This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition. These sub-categories differ in a similar manner as those discussed under "Financial assets at fair value through profit or loss" on page 29.

Derivative liabilities, except those forming part of a designated and effective hedging relationship, are also categorised as held for trading.

All short positions in debt securities held in externally managed funds have been designated at fair value through profit or loss upon initial recognition as they are managed and evaluated on a fair value basis in accordance with the documented investment strategy.

Other financial liabilities
With the exception of liabilities designated at fair value through profit or loss, all other financial liabilities are measured at amortised cost, unless they form part of a qualifying hedge relationship with a derivative position.

Derivative financial instruments and hedge accounting
All derivatives are measured at fair value through the income statement unless they form part of a qualifying cash flow hedging relationship. In this case, the fair value of the derivative is taken to reserves to the extent that it is a qualifying hedge of the identified risk. Any hedge ineffectiveness will result in the relevant proportion of the fair value remaining in the income statement. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third-party quotes. Derivatives are carried as assets when their fair value is positive, and as liabilities when their fair value is negative. All hedging activity is explicitly identified and documented by the Bank's Treasury department.

Hedge accounting
Hedge accounting is designed to bring accounting consistency to financial instruments that would not otherwise be permitted. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument (the hedge) is highly negatively correlated to the change in value of the other (the hedged item). To qualify for hedge accounting this correlation must be within a range of 80 to 125 per cent, with any ineffectiveness within these boundaries recognised within "Fair value movement on non-qualifying and ineffective hedges" in the income statement. The Bank applies hedge accounting treatment to individually identified hedge relationships. Also included within this caption of the income statement are the gains and losses attributable to derivatives that the Bank uses for hedging interest-rate risk on a macro basis, but for which the Bank does not apply hedge accounting.

The Bank documents the relationship between hedging instruments and hedged items upon initial recognition of the transaction. The Bank also documents its assessment, on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

The Bank's hedging activities are primarily designed to mitigate interest rate risk by using swaps to convert the interest rate risk profile, on both assets and liabilities, into floating rate risk. Such hedges are known as "fair value" hedges. Changes in the fair value of the derivatives that are designated and qualify as fair value hedges, and that prove to be highly effective in relation to hedged risk, are included in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Cash flow hedges

The Bank has engaged in cash flow hedges, principally to minimise the exchange rate risk associated with the fact that its future administrative expenses are incurred in sterling. The amount and timing of such hedges fluctuates in line with the Bank's view on opportune moments to execute the hedges. Hedging is mainly through the purchase of sterling in the forward foreign exchange market, but currency options can also be used. The movement in the fair value of cash flow hedges is recognised directly in reserves until such time as the relevant expenditure is incurred. At 31 December 2009 the Bank had a number of cash flow hedges in place for future budgeted administrative expenditure to be incurred in sterling.

For further information on risk and related management policies see "Risk management" on page 40.

Financial guarantees

Issued financial guarantees are initially recognised at their fair value, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the statement of financial position date. The latter is recognised when it is both probable that the guarantee will need to be settled and that the settlement amount can be reliably estimated. Financial guarantees are recognised within other financial assets and other financial liabilities.

Impairment of financial assets

Loans and receivables

Where there is objective evidence that an identified loan asset is impaired, specific provisions for impairment are recognised in the income statement. Impairment is quantified as the difference between the carrying amount of the asset and the net present value of expected future cash flows discounted at the asset's original effective interest rate where applicable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The carrying amount of the asset is reduced directly only upon write off. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings
- deterioration in the borrower's competitive position
- deterioration in the value of collateral.

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis. The methodology used for assessing such impairment is based on a risk-rated approach for non-sovereign assets. A separate methodology is applied for all sovereign risk assets that takes into account the Bank's preferred creditor status afforded by its members. The Bank's methodology calculates impairment on an incurred loss basis. Impairment is deducted from the asset categories on the statement of financial position.

The Bank maintains a loan loss reserve to set aside an amount of retained earnings within members' equity equal to the difference between the impairment losses expected over the full life of the loan portfolio, and the cumulative amount provisioned through the Bank's income statement on an incurred loss basis.

Impairment, less any amounts reversed during the year, is charged to the income statement. When a loan is deemed uncollectible the principal is written off against the related impairment provision. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Recoveries are credited to the income statement if previously written off.

Renegotiated loans

Loans that are either impaired or past due, whose terms have been renegotiated so that they are no longer considered to be impaired or past due, are treated as new loans.

Available-for-sale share investments

Available-for-sale share investments are impaired when there is objective evidence that the future recoverability of the Bank's original investment is in doubt. A significant or prolonged decline in the fair value of a share investment below its cost represents objective evidence of impairment. The Bank also evaluates factors such as country, industry and sector performance, changes in technology and operational and financial performance. Although projects are usually reviewed for impairment every six months, or, in the case of low risk projects, at least once a year, certain events may trigger this process sooner and more frequently. In such cases, future collectability is considered and any cumulative loss previously recognised in reserves is removed and included in the income statement.

Impairment losses recognised in operating income for available-for-sale share investments are not reversed through the income statement.

Available-for sale debt securities

The Bank assesses at each statement of financial position date whether there is objective evidence of impairment. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- downgrading of the issuer below minimum eligibility levels for Treasury exposures
- issuer failure to pay amounts contracted under the security
- covenant breaches, default events and trigger level failures
- deterioration of credit enhancement including diminuition of collateral values
- legal proceedings such as bankruptcy, regulatory action or similar.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in operating income – is removed from reserves and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of the statement of financial position, which are available for use at short notice and that are subject to insignificant risk of changes in value, less liabilities on demand.

Foreign currencies

In accordance with Article 35 of the Agreement, the Bank originally used the European Currency Unit (ECU) as the reporting currency for the presentation of its financial statements. Following the replacement of the ECU with the euro (€) from 1 January 1999, the reporting currency for the presentation of the financial statements became the euro.

Foreign currency transactions are initially translated into euros using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are included in the income statement, except when deferred in reserves as qualifying cash flow hedges. Translation differences on share investments classified as at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on share investments classified as available-for-sale financial assets are included in the fair value reserve in equity.

Capital subscriptions

The Bank's share capital is denominated in euros. However, in addition to settling their capital obligation in euros, members are also entitled to settle in US dollars or Japanese yen. For this purpose, a fixed exchange rate for each currency was defined in Article 6 of the Agreement and these fixed exchange rates are used to measure the value of the associated capital, as reported in "Members' equity" in the statement of financial position. The corresponding balance for capital receivable on the asset side of the statement of financial position is, however, measured at current exchange rates.

Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure that enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and is added to the original cost of the software. Computer software development costs recognised as intangible assets are amortised using the straight-line method over an estimated life of three years.

Property, technology and office equipment

Property, technology and office equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over the estimated life as follows:

Freehold property	30 years
Improvements on leases of less than 50 years unexpired	Unexpired periods
Technology and office equipment	Three years

Accounting for leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. The Bank has entered into such leases for most of its office accommodation, both in London and in the Bank's countries of operations. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Interest, fees, commissions and dividends

Interest is recorded on an accruals basis using the effective interest method. Interest is recognised on impaired loans through unwinding the discount used in the present value calculations applied to expected future cash flows.

Front-end fees and commitment fees are deferred in accordance with IAS 18, together with the related direct costs of originating and maintaining the commitment. These are then recognised in interest income using the effective interest method over the period from disbursement to repayment of the related loan. If the commitment expires without the loan being drawn down, the fee is recognised as income on expiry.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided. Other fees and commissions are classed as income when received. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings on an effective yield basis.

Dividends relating to share investments are recognised when received.

Staff retirement plans

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to its staff. Under the defined contribution scheme, the Bank and staff contribute to provide a lump sum benefit. The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme.

The asset in respect of the defined benefit scheme is the fair value of plan assets minus the present value of the defined benefit obligation at the statement of financial position date, together with adjustments for unrecognised actuarial gains/losses and past service cost. Independent actuaries calculate the defined benefit obligation at least every three years by using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (relating to service accrued to the statement of financial position date) using the yields available on high-quality corporate bonds. For intermediate years, the defined benefit obligation is estimated using approximate actuarial roll-forward techniques that allow for additional benefit accrual, actual cash flows and changes in the underlying actuarial assumptions.

The Bank keeps all contributions to the schemes, and all other assets and income held for the purposes of the schemes, separately from all of its other assets. Actual contributions made to the defined contribution scheme are charged to the income statement and transferred to the scheme's independent custodians. The charge to the income statement in respect of the defined benefit scheme is based on the current service cost and other actuarial adjustments, as determined by qualified external actuaries. Also included in this charge are actuarial gains and losses in excess of a 10 per cent corridor that are amortised over the estimated average service life remaining of the Bank's employees. The 10 per cent corridor is the higher of 10 per cent of the defined benefit obligation or the fair value of assets. The Bank's contributions to the defined benefit scheme are determined by the Retirement Plan Committee, with advice from the Bank's actuaries, and the contributions are transferred to the scheme's independent custodians.

Taxation

In accordance with Article 53 of the Agreement, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services.

Borrowings

Borrowings are recognised initially at fair value, defined as their issue proceeds, net of any transaction costs incurred. They are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method. Where borrowings have associated derivatives and qualify for hedge accounting in line with IAS 39, the amortised cost value is adjusted by the fair value of the hedged risks.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

C. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparing financial statements in conformity with IFRS requires the Bank to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates are highly dependent on a number of variables that reflect the economic environment and financial markets of the Bank's countries of operations, but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The resultant volatility, combined with a lack of comparable information in relation to the Bank's banking portfolio, limits the Bank's ability to apply traditional sensitivity analysis methods.

The Bank's critical accounting estimates and judgements are as follows:

Fair value of derivative financial instruments

The fair values of the Bank's derivative financial instruments are determined by using discounted cash flow models. These cash flow models are based on underlying market prices for currencies, interest rates and option volatilities. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. Where unobservable market data has been so used, a sensitivity analysis has been included under "fair value hierarchy" on page 70.

Fair value of share investments

The Bank's method for determining the fair value of share investments is described in the "Financial assets" accounting policy on page 28 and an analysis of the share investment portfolio is provided in note 19. In relation to the Bank's share investments where the valuations are not based on observable market inputs, additional sensitivity information has been included under "fair value hierarchy" on page 70.

Impairment of available-for-sale share investments

Under IAS 39, the key indicator of equity impairment is a "significant or prolonged decline in the fair value of an investment in an instrument below cost". For the Bank, a "significant" decline is defined as a decline greater than 30 per cent below cost. This figure reflects the assessment that, in the current financial markets, any decline less than 30 per cent may not be an indicator of permanent impairment. A "prolonged" decline is defined as a decline below cost for greater than 12 months.

As a measure of sensitivity for "significant" decline:

- If an impairment trigger of a decline greater than 20 per cent below cost was applied with the "prolonged" decline trigger held constant, a further six available-for-sale share investments with a fair value totalling €12 million at 31 December 2009 would potentially be classified as impaired.
- If an impairment trigger of a decline greater than 40 per cent below cost was applied with the "prolonged" decline trigger held constant, one available-for-sale share investment with a fair value totalling €3 million at 31 December 2009 would potentially not be classified as impaired.

As a measure of sensitivity for "prolonged" decline:

- If an impairment trigger of a decline below cost for greater than six months was applied with the "significant" decline trigger held constant, a further five available-for-sale share investments with a fair value totalling €20 million at 31 December 2009 would potentially be classified as impaired.
- If an impairment trigger of a decline below cost for greater than 18 months was applied with the "significant" decline trigger held constant, this would not result in any additional impairments.

Provisions for the impairment of loan investments

The Bank's method for determining the level of impairment of loan investments is described in the "Impairment of financial assets" accounting policy on page 32 and further explained under credit risk on page 40.

Portfolio provisions for the unidentified impairment of non-sovereign loan investments at 31 December 2009 were €491 million.

The sensitivity of portfolio provisions to uniform risk rating upgrades, downgrades and a change in loss given default assumptions is provided below.

- If all non-sovereign loan investments were upgraded by one risk rating category, this would result in a total credit to the profit and loss of €426 million. This comprises a credit to the income statement of €295 million in relation to portfolio provisions for non-sovereign loans. This would have included portfolio provisions of approximately €20 million on outstanding loan investments of €163 million – previously risk rated 8 – that would no longer be considered individually impaired. In addition, specific provisions would decrease by approximately €131 million.
- Conversely, if all non-sovereign loan investments were downgraded by one risk rating category this would result in a net charge to the profit and loss of €1.7 billion. This comprises a credit to the income statement of €104 million in relation to portfolio provisions for non-sovereign loans. Such decrease in provisions for unidentified impairment would be mainly attributed to the fact that 21 per cent of non-sovereign loan investments are risk rated 7 as at end-2009 (2008: 7 per cent). On downgrade by one risk rating category these assets risk rated 7 would have become individually impaired. Consequently, specific provisions for identified impairment would have increased by €1.8 billion.
- A 10 per cent decrease in loss given default rates would lead to a corresponding decrease in portfolio provisions by €68 million, reducing provisions for unidentified impairment in non-sovereign loans to €423 million.
- An increase in loss given default rates by 10 per cent would lead to a symmetrical increase in portfolio provisions for unidentified impairment of non-sovereign loans by €68 million, to a total of €559 million.

Portfolio provisions for the unidentified impairment of sovereign loan investments at 31 December 2009 amounted to €12 million (2008: €5 million). Due to the Bank's preferred creditor status afforded by its members, a downgrade or upgrade by one risk rating category would not have had a significant impact on the level of sovereign portfolio provisions, and hence the income statement.

The methodology and judgements used for estimating provisions for the impairment of loan investments are reviewed regularly to reduce any differences between loss estimates and actual experience.

Risk management

FINANCIAL RISKS

The independent identification, measurement, monitoring and mitigation of all risks incurred by the Bank in both its Banking and Treasury activities is the overall responsibility of the Vice President, Risk Management, Human Resources and Nuclear Safety ("the Vice President, Risk Management").

The Vice President, Risk Management is a member of the Bank's Executive Committee, as are the First Vice President, Banking, and the Vice President, Finance, to whom Treasury reports. The Vice President, Risk Management, has overall responsibility for formulating the Bank's risk management strategy for both Banking and Treasury functions. Risk Management seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through comprehensive and rigorous processes, which reflect industry best practice.

In carrying out its mission, the Bank is exposed to financial risks through both its Banking and Treasury activities. The principal financial risks to which the Bank is exposed are credit, market and liquidity risk. The last year saw a rebound in equity markets and the possible beginning of transition from systemic to differentiated risk. While risk, as measured by the Bank, has continued to increase from last year no significant realisations of those increased risks have occurred through defaults.

A. CREDIT RISK

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness. The Bank also monitors concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector, obligor, and type of instrument or individual transaction.

The Bank is exposed to credit risk in both its Banking and Treasury activities, as borrowers and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become impaired.

Maximum exposure to credit risk before collateral held, other credit enhancements or impairment provisions

	2009 € million	2008 € million
Placements with and advances to credit institutions	3,247	3,344
Debt securities at fair value through profit or loss	222	1,213
Available-for-sale debt securities	1,012	1,263
Held-to-maturity debt securities	1,239	1,157
Collateralised placements	1,171	1,163
Derivative financial assets	2,538	2,849
Other financial assets	483	1,139
Treasury loan investments	5,484	5,811
Banking loan investments	13,125	10,930
Share investments at fair value through profit or loss	2,279	2,310
Banking available-for-sale share investments	2,455	2,054
Treasury available-for-sale share investments	57	42
Paid-in capital receivable	17	44
Undrawn commitments and guarantees	7,716	6,469
At 31 December	**41,045**	39,788

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2009 and 31 December 2008, without taking account of any collateral held, other credit enhancements or impairment provisions.

Credit risk in the Banking portfolio: Management

For Banking exposures the Board of Directors approves a Credit Process document that defines the procedures for the approval, management and review of Banking exposures by the Operations Committee. The Audit Committee reviews the Credit Process annually and its review is submitted to the Board for approval.

Banking projects are reviewed by the Operations Committee. The Operations Committee is chaired by the First Vice President, Banking and its membership comprises senior managers of the Bank. The Operations Committee is responsible for reviewing all Banking operations prior to their submission for Board approval. Projects are reviewed to ensure that they meet the Bank's criteria for sound banking, transition impact and additionality. The Operations Committee operates within the authority delegated by the Board, via the Executive Committee, to approve projects within Board-approved framework operations. The Operations Committee is also responsible for overseeing Banking portfolio management, approving significant changes to existing operations and approving Risk Management's recommendations for provisions for the impairment of Banking loans.

The Bank conducts regular reviews of all exposures within the Banking portfolio, typically on a semi-annual basis. Exposures that are perceived to be more vulnerable to possible default are reviewed more frequently and those that are perceived to be less vulnerable may be reviewed annually. At each review, Risk Management assesses whether there has been any change in the risk profile of the exposure, recommends actions to mitigate risk and reconfirms or adjusts the risk rating. For share investments it reviews the fair value. Where relevant, the level of impairment and specific provision is reviewed and reconfirmed or adjusted. At the recommendation of Risk Management, investments considered to be in jeopardy may be transferred from Banking teams to the Corporate Recovery Unit – which reports jointly to Risk Management and Banking – in order to manage the restructuring work-out and recovery process.

The table below shows the Bank's internal rating scale and how this approximately maps to the external ratings of Standard & Poor's (S&P).

EBRD internal rating scale	External rating equivalent – S&P	EBRD category
1	AAA	Excellent
2	AA+, AA, AA-	Strong
3	A+, A, A-	Very good
4	BBB+, BBB, BBB-	Good
5	BB+, BB, BB-	Satisfactory
6	B+, B	Acceptable
6W	B-	Watch
7	CCC	Special attention
8	CC	Substandard
9	C	Doubtful
10	D	Expected loss

As a response to the financial crisis, resources in the Banking division are being applied to sectors more at immediate risk (for example, financial institutions), and monitoring has been intensified to ensure a timely response to potential credit problems.

Disbursements are managed by the Operations Administration Unit (OAU) within the Office of the General Counsel, which is responsible for checking compliance with the loan agreements and other project agreements and ensuring that correct procedures are followed in line with approved policy. Waivers, consents and amendments of loan covenants and conditionality are prepared by the OAU and are approved by Banking, Risk Management and, where required, by the Office of the General Counsel, the Office of the Chief Economist and the Environment and Sustainability Department.

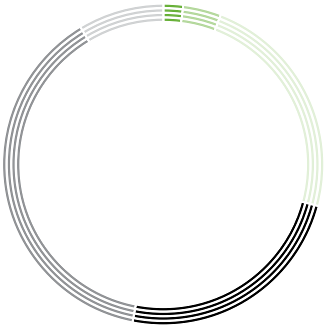
For the non-sovereign and sovereign loan portfolio, general provisions and loan loss reserve amounts are calculated each month using the Bank's methodology, which is based on the Bank's Risk Capital Model. The model is updated annually with the most recent default and operational assumptions. This is designed to estimate incurred losses calculated on the basis of objective evidence of impairment, the Bank's experience, and project, sector and country risks.

Risk Management prepares a report on the development of the portfolio as a whole on a quarterly basis to present to the Audit Committee. The report includes a summary of key factors affecting the portfolio and provides analysis and commentary on trends within the portfolio. It also includes commentary on individual exposures in the classified portfolio and measures of exposure against portfolio risk limits, with any breaches of limits reported and explained.

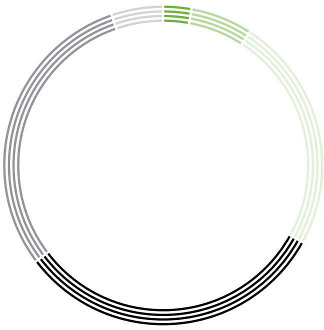
The Bank assigns project, country and overall risk ratings to each exposure on an internal scale from 1 (lowest risk) to 10 (highest risk). The project rating is determined on the basis of the financial strength of the risk counterparty and the risk mitigation built into the project structure, including sponsor support or guarantee. The country rating is assessed internally, taking into consideration the ratings assessed by external rating agencies. For non-sovereign operations, the overall rating is normally the numerically higher of the project and country rating. The exception to this is where the Bank has recourse to unconditional sponsor support from outside the country of operations, in which case the overall rating is the same as the project rating. For sovereign risk projects, the overall rating is the same as the country rating.

Credit quality of the Banking portfolio

31 December 2009



31 December 2008



	2009	2008
1, 2, 3	2.2%	3.0%
4	3.8%	6.2%
5	23.2%	24.0%
6	23.9%	31.7%
6W, 7	38.4%	29.9%
8, 9, 10	8.5%	5.2%

Credit risk in the Banking portfolio: 2009 results

In view of the markets in which it operates and its transition mandate, the Bank expects the majority of its project ratings under normal circumstances to be in risk categories 5 or 6 (approximately equivalent to S&P BB+ to B ratings) at the time of approval. At 31 December 2009, 47.1 per cent of the loan and share investment portfolio was classed under risk ratings 5 to 6 (2008: 55.7 per cent).

The total Banking exposure (operating assets including fair value adjustments but before provisions) increased during the year from €15.3 billion at 31 December 2008 to €17.9 billion at 31 December 2009. The total signed Banking portfolio (operating assets, excluding fair value adjustments and provisions but including undrawn commitments) increased from €21.5 billion at 31 December 2008 to €25.6 billion at 31 December 2009. The overall risk rating of the portfolio deteriorated from 5.86 to 6.12.

Total non-sovereign classified operating assets (operating assets risk rated 7 to 10) increased, both in real terms and as a proportion of the portfolio, from €1.8 billion (14 per cent of total operating assets) to €4.9 billion (28 per cent of total operating assets). Impaired loan assets increased from €127 million to €305 million due to the continued downturn, ongoing liquidity and corporate troubles in many of the Bank's countries of operations.

Loan investments

Set out below is an analysis of the Banking loan investments and the associated impairment provisions for each of the Bank's internal risk rating categories.

Risk rating	Neither past due nor impaired € million	Past due but not impaired € million	Impaired € million	Total € million	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Total %	Impairment provisions %
2: Strong	45	-	-	45	-	-	45	0.3	0.0
3: Very good	254	-	-	254	-	-	254	1.9	0.0
4: Good	744	-	-	744	(1)	-	743	5.7	0.1
5: Satisfactory	4,295	4	-	4,299	(22)	-	4,277	32.8	0.5
6: Acceptable	2,816	-	-	2,816	(45)	-	2,771	21.5	1.6
6W: Watch	1,646	1	-	1,647	(72)	-	1,575	12.5	4.4
7: Special attention	2,991	24	-	3,015	(363)	-	2,652	23.0	12.0
8: Substandard	-	-	163	163	-	(76)	87	1.2	46.6
9: Doubtful	-	-	6	6	-	(4)	2	0.1	66.7
10: Expected loss	-	-	136	136	-	(136)	-	1.0	100.0
At 31 December 2009	**12,791**	**29**	**305**	**13,125**	**(503)**	**(216)**	**12,406**	**100.0**	**-**

Risk rating	Neither past due nor impaired € million	Past due but not impaired € million	Impaired € million	Total € million	Portfolio provisions for unidentified impairment € million	Specific provisions for identified impairment € million	Total net of impairment € million	Total %	Impairment provisions %
2: Strong	50	-	-	50	-	-	50	0.5	0.0
3: Very good	257	-	-	257	-	-	257	2.3	0.0
4: Good	1,045	-	-	1,045	(1)	-	1,044	9.6	0.1
5: Satisfactory	3,371	-	-	3,371	(10)	-	3,361	30.8	0.3
6: Acceptable	3,432	-	-	3,432	(34)	-	3,398	31.4	1.0
6W: Watch	1,774	7	-	1,781	(47)	-	1,734	16.3	2.6
7: Special attention	847	20	-	867	(61)	-	806	7.9	7.0
8: Substandard	-	-	85	85	-	(32)	53	0.8	37.7
9: Doubtful	-	-	33	33	-	(33)	-	0.3	100.0
10: Expected loss	-	-	9	9	-	(9)	-	0.1	100.0
At 31 December 2008	10,776	27	127	10,930	(153)	(74)	10,703	100.0	-

There were 12 renegotiated loans (2008: nil) during the year that would otherwise have been past due or impaired. At 31 December 2009 these loans totalled €99 million (2008: nil).

Of the past due loans, €6 million was outstanding for less than 30 days (2008: €3 million), €13 million was outstanding for more than 30 days but less than 90 days (2008: €7 million) and €10 million was outstanding for more than 90 days (2008: €17 million).

The fair value of collateral held over impaired and past due loans at 31 December 2009 was €99 million (2008: €81 million).

Share investments at fair value through profit or loss

Set out below is an analysis of the Bank's share investments at fair value through profit or loss for each of the Bank's relevant internal risk rating categories.

Risk rating	Cost 2009 € million	Fair value 2009 € million	Cost 2008 € million	Fair value 2008 € million
4: Good	-	4	-	1
5: Satisfactory	247	520	358	797
6: Acceptable	370	456	470	686
6W: Watch	478	427	473	551
7: Special attention	481	604	170	166
8: Substandard	503	260	195	101
9: Doubtful	59	8	50	8
10: Expected loss	16	-	4	-
At 31 December	**2,154**	**2,279**	1,720	2,310

Available-for-sale share investments

Set out below is an analysis of the Bank's available-for-sale share investments for each of the Bank's relevant internal risk rating categories.

Risk rating	Cost 2009 € million	Fair value 2009 € million	Cost 2008 € million	Fair value 2008 € million
4: Good	59	121	84	137
5: Satisfactory	240	464	489	682
6: Acceptable	304	341	507	546
6W: Watch	500	745	407	489
7: Special attention	281	366	51	58
8: Substandard	939	416	645	142
9: Doubtful	35	2	2	-
10: Expected loss	8	-	4	-
At 31 December	**2,366**	**2,455**	2,189	2,054

Available-for-sale share investments risk rated 8-10 are considered to be impaired, mainly because of a significant or prolonged decline in the fair value of these investments below cost.

Undrawn commitments and guarantees

Set out below is an analysis of the Bank's undrawn commitments and guarantees for each of the Bank's relevant internal risk rating categories.

Risk rating	Undrawn commitments 2009 € million	Guarantees 2009 € million	Undrawn commitments 2008 € million	Guarantees 2008 € million
2: Strong	4	-	4	-
3: Very good	62	-	86	-
4: Good	20	-	42	-
5. Satisfactory	1,340	54	1,259	18
6: Acceptable	2,740	82	2,727	102
6W: Watch	1,486	112	1,509	82
7: Special attention	1,364	76	474	61
8: Substandard	368	-	100	-
9: Doubtful	7	1	5	-
At 31 December	**7,391**	**325**	6,206	263

For projects risk rated 8 or worse, it is unlikely that commitments would be drawn down given that conditions precedent need to be satisfied before further disbursements.

Paid-in capital receivable

Set out below is an analysis of the Bank's paid-in capital receivable at 31 December 2009 and 31 December 2008.

	2009 € million	2008 € million
Cash and promissory notes due but not yet received	17	16
Cash and promissory note encashments not yet due	-	27
Promissory note encashments due but not yet received	-	1
Paid-in capital receivable at 31 December	**17**	44

Paid-in capital receivable has been stated at its nominal value on the statement of financial position to reflect future receipts of overdue capital. At 31 December 2009 no paid-in capital receivable was considered impaired (2008: nil).

Credit risk in the Banking portfolio: Concentration

The following table breaks down the main Banking credit risk exposures in their carrying amounts by geographic region.

	Loans 2009 € million	Banking share investments 2009 € million	Undrawn commitments and guarantees 2009 € million	Total 2009 € million	Loans 2008 € million	Banking share investments 2008 € million	Undrawn commitments and guarantees 2008 € million	Total 2008 € million
Albania	177	53	134	364	151	39	142	332
Armenia	104	25	70	199	74	31	37	142
Azerbaijan	324	58	212	594	290	26	178	494
Belarus	75	5	27	107	61	7	5	73
Bosnia and Herzegovina	356	-	408	764	270	1	466	737
Bulgaria	599	5	202	806	418	8	287	713
Croatia	620	468	97	1,185	444	408	129	981
Czech Republic	54	35	7	96	70	28	7	105
Estonia	-	14	8	22	48	1	-	49
FYR Macedonia	136	18	87	241	167	25	35	227
Georgia	248	40	74	362	207	24	144	375
Hungary	304	207	507	1,018	253	172	61	486
Kazakhstan	597	295	428	1,320	718	172	276	1,166
Kyrgyz Republic	31	3	44	78	30	3	5	38
Latvia	34	55	12	101	35	-	-	35
Lithuania	79	38	20	137	94	39	1	134
Moldova	84	15	90	189	90	17	65	172
Mongolia	46	25	16	87	34	15	29	78
Montenegro	52	-	28	80	35	-	20	55
Poland	691	368	166	1,225	523	391	130	1,044
Romania	1,263	342	601	2,206	1,013	275	374	1,662
Russia	3,997	1,060	1,377	6,434	3,466	1,172	1,089	5,727
Serbia	611	135	564	1,310	547	110	314	971
Slovak Republic	129	117	184	430	108	103	40	251
Slovenia	31	31	3	65	50	54	4	108
Tajikistan	36	8	23	67	35	2	36	73
Turkey	108	-	35	143	-	-	-	-
Turkmenistan	7	-	4	11	9	6	-	15
Ukraine	1,757	99	861	2,717	1,198	117	878	2,193
Uzbekistan	90	2	33	125	68	2	67	137
Regional	485	1,213	1,394	3,092	424	1,116	1,650	3,190
At 31 December	13,125	4,734	7,716	25,575	10,930	4,364	6,469	21,763

The following table breaks down the main Banking credit exposures in their carrying amounts by the industry sector of the counterparty.

	Loans 2009 € million	Banking share investments 2009 € million	Undrawn commitments and guarantees 2009 € million	Total 2009 € million	Loans 2008 € million	Banking share investments 2008 € million	Undrawn commitments and guarantees 2008 € million	Total 2008 € million
Agribusiness	1,339	402	333	2,074	1,069	350	206	1,625
Banking	3,024	1,406	1,172	5,602	2,348	1,222	760	4,330
Equity funds	-	565	728	1,293	-	683	768	1,451
General industry	1,851	299	371	2,521	1,679	308	298	2,285
Municipal and environmental infrastructure	1,039	440	824	2,303	1,030	325	668	2,023
Natural resources	726	277	354	1,357	487	134	173	794
Non-bank financial institutions	364	438	262	1,064	511	478	171	1,160
Power and energy	1,281	342	1,033	2,656	947	203	853	2,003
Property and tourism	277	298	592	1,167	258	386	690	1,334
Small business finance	611	42	96	749	551	45	85	681
Telecoms, informatics and media	277	95	71	443	251	50	306	607
Transport	2,336	130	1,880	4,346	1,799	180	1,491	3,470
At 31 December	13,125	4,734	7,716	25,575	10,930	4,364	6,469	21,763

Credit risk in the Treasury portfolio: Management

For Treasury exposures, the Board of Directors approves a Treasury and Treasury Risk Management Authority (T&TRMA), which defines the risk parameters for funding, cash management, asset and liability management and the investment activities of the Bank. This document is updated annually by the Finance and Risk Management Vice Presidencies and approved by the Board. It covers all aspects of Treasury where financial risks arise and also Risk Management's identification, measurement, management and mitigation of the financial risks in Treasury. In addition, Treasury and Treasury Risk Management guidelines have been issued in respect of Treasury risk taking and the related risk management processes and procedures.

The T&TRMA is the document by which the Board of Directors delegates authority to the Vice President, Finance, to manage and the Vice President, Risk Management, to identify, measure, monitor and mitigate the Bank's Treasury exposures. The two Vice Presidents jointly interpret the T&TRMA and notify the Board of Directors of any material interpretation. The Financial and Operations Policies Committee reviews the T&TRMA annually and its review is submitted to the Board for approval.

Treasury risks are reviewed by the Treasury Exposure Committee (TEC). The TEC is chaired by the Vice President, Risk Management and its membership comprises senior managers of the Bank. The TEC is responsible for reviewing and monitoring the implementation of the T&TRMA and related guidelines. It assesses Treasury and Risk Management policy proposals for approval by the Board, and monitors and reviews the asset/liability profile and risk/return trade off in aggregate Treasury exposures. It also evaluates new product proposals for Treasury. Impairment of Treasury assets is identified by Risk Management, assessed by the TEC and approved by the Vice Presidents of Finance and Risk Management.

Each counterparty or issuer to which the Bank is exposed through its Treasury activities is approved and granted a maximum credit limit by Risk Management. Risk Management assigns internal credit ratings based on internal analysis of approved counterparties' creditworthiness through the synthesis of externally provided credit research and market data and with reference to external rating benchmarks from approved rating agencies. The internal credit rating scale ranges from 1 (lowest risk) to 10 (highest risk), the same as that used for Banking exposures (a table showing how the Bank's internal rating scale maps to the external ratings of S&P is shown in "Credit risk in the Banking portfolio: Management" on page 41).

Eligible Treasury exposures are normally rated between 1 and 3.3 (approximately equivalent to S&P AAA to A- ratings), with the exception of counterparties in the countries of operations approved for local currency activities. These transactions support the Bank's initiatives to provide local currency financing to Banking clients and to develop local capital markets. These internal ratings determine the maximum allowable exposures as set out per rating level and counterparty type in the Bank's guidelines for Treasury operations. The internal rating process is based on credit risk managers' judgement, external rating benchmarks and senior management oversight and approval. Risk Management assesses all available credit research to identify key counterparty credit risk considerations. That analysis is then supplemented with market-based credit indicators, such as credit default swap spreads and market-implied credit ratings, to produce an internal rating for each approved counterparty.

The assigned internal ratings are relative rankings of default risk. When analysing portfolio credit risk within Treasury activities, the Bank maps internal ratings to external rating benchmarks to apply rating transition and default statistics sourced from rating agencies.

The Board-approved T&TRMA states the minimum rating and maximum tenor by type of eligible counterparty. Operational guidelines approved and issued by the Vice President, Risk Management set the maximum exposure size limits per rating class and counterparty type. The actual exposure size limit and/or tenor limit attributed to individual counterparties may be smaller or shorter, respectively, based on the likely direction of its credit quality over the medium term, its internal outlook, or on sector considerations. Individual counterparty lines for banks, corporates and insurance companies are measured, monitored and reviewed by Risk Management on a regular basis with a strong surveillance focus, including quarterly reports on the counterparties either contributing the most to the credit Value at Risk (VaR) of the Treasury portfolio or with large nominal exposures.

The Bank's exposure measurement methodology for Treasury credit risk uses a "Monte Carlo" simulation technique that produces, to a high degree of confidence, maximum exposure amounts at future points in time for each counterparty (in practice, 95 per cent eVaR).[9] This includes all transaction types and is measured out to the maturity of the longest dated transaction with that counterparty. Exposures are calculated and controlled against approved limits daily with exceptions escalated to the Director, Risk Management for approval. The impairments for the Treasury credit portfolio in 2009 were €32 million (2008: €130 million).

Risk mitigation techniques and risk transferring instruments reduce calculated credit exposure measures. For example, Credit Support Annexes for over-the-counter (OTC) derivatives activity reduce potential future exposures in line with collateral posting expectations. Likewise, buying credit protection via a credit default swap usually decreases measured exposure on the reference entity.

[9] VaR is a statistical estimate of the maximum probable loss that can be incurred, due to adverse movements in major risk drivers, over a one-day trading horizon and estimated at a given confidence level. Expected shortfall, or eVaR, is the average loss beyond the VaR level and is a more accurate measure of large potential losses.

[10] Using the Bank's internal rating scale, where 2.0 is equivalent to an external rating of AA/Aa2/AA with S&P/Moody's/Fitch ratings; 2.3 is equivalent to an external rating of AA-/Aa3/AA- and 2.7 is equivalent to an external rating of A+/A1/A+.
[11] BBB-/Baa3/BBB- level or above.

Credit risk in the Treasury portfolio: 2009 results

Treasury peak credit exposure stands at €9.6 billion at 31 December 2009 compared with €12.9 billion at 31 December 2008. During the year, a new risk engine was implemented and deployed as part of the EBRD's Risk Management Systems Programme (RMSP). This has led to significant changes in exposure figures, notably on the overall peak exposure. The main reason for this is that the collateral posted to the Bank is no longer considered part of the Bank's direct exposure.

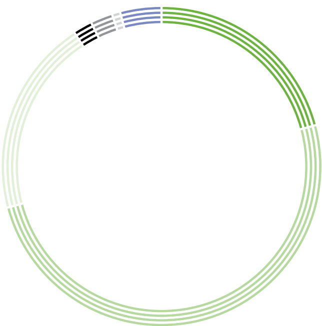
The credit quality of the Treasury portfolio deteriorated during 2009 with the average credit rating weighted by peak counterparty exposure – excluding Treasury's new activities in the Bank's countries of operations – standing at 2.45 at 31 December 2009 (2008: 2.06).[10] The change came as a result of the downgrade of financial sector companies together with a counteracting shift in Treasury activities towards the safer part of the financial sector.

The percentage of Treasury transactions of investment grade quality[11] decreased to 93 per cent at 31 December 2009 (2008: 97 per cent). Treasury's exposure to below investment grade obligors is limited to counterparties from the countries of operations, a few asset-backed security (ABS) investments originally rated triple-A by leading external rating agencies as well as the impaired financial sector bonds.

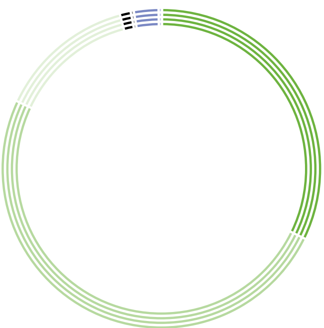
At 31 December 2009 there were no collateralised placements, held-to-maturity debt securities, other financial assets or Treasury share investments past due or impaired (2008: nil). All trades within these categories were risk rated 1 (excellent) to 3 (very good) on the Bank's internal risk rating scale (refer to page 40 for the Bank's full internal risk rating scale).

Credit quality of the Treasury portfolio

31 December 2009



31 December 2008



		2009	2008
1	(AAA)	21.0%	32.3%
1.7 – 2.5	(AA)	50.0%	49.9%
2.7 – 3.3	(A)	20.0%	13.7%
3.7 – 4.3	(BBB)	2.0%	1.2%
4.7 – 5.3	(BB)	2.0%	0.3%
5.7 – 6.3	(B)	1.0%	0.0%
6.7 – 7.3	(CCC)	0.0%	0.0%
8	(CC)	4.0%	2.4%
9	(C)	0.0%	0.2%

Placements with and advances to credit institutions

Set out below is an analysis of the Bank's placements with and advances to credit institutions for each of the Bank's relevant internal risk rating categories.

Risk rating	2009 € million	2008 € million
1-3: Excellent to very good	3,116	3,332
4: Good	13	-
5-6: Satisfactory to acceptable	118	12
At 31 December	**3,247**	3,344

At 31 December 2009 there were no placements with and advances to credit institutions that were past due or impaired (2008: nil).

Debt securities

Risk Management determines the eligibility of credit exposures based on the internal risk ratings applied and the parameters set out in the T&TRMA and other relevant policies and guidelines. In cases where the creditworthiness of security issuers deteriorates to levels below the standard of eligibility for new exposures, Risk Management and Treasury jointly recommend actions for the approval of the Vice President, Risk Management and the Vice President, Finance. Any decision to retain ineligible exposures is reported to the TEC and the Audit Committee.

In cases where the Bank considers the exposure to be permanently reduced in value, impairment is recognised in the income statement. Impairment is further discussed under the "Accounting policies" section on page 32.

Debt securities at fair value through profit or loss

Set out below is an analysis of the Bank's debt securities at fair value through profit or loss for each of the Bank's relevant internal risk rating categories.

Risk rating	2009 € million	2008 € million
1-3: Excellent to very good	213	1,209
5-6: Satisfactory to acceptable	9	4
At 31 December	**222**	1,213

Available-for-sale debt securities

At 31 December 2009, there were no available-for-sale debt securities that were past due or impaired.

Risk rating	2009 € million	2008 € million
1-3: Excellent to very good	1,000	1,263
5-6: Satisfactory to acceptable	12	-
At 31 December	**1,012**	1,263

Derivative financial assets

Set out below is an analysis of the Bank's Derivatives for each of the Bank's internal rating categories.

Risk rating	2009 € million	2008 € million
1-3: Excellent to very good	2,532	2,849
5-6: Satisfactory to acceptable	6	-
At 31 December	**2,538**	2,849

Treasury loan investments

Set out below is an analysis of the Bank's Treasury loan investments for each of the Bank's relevant internal risk rating categories.

Risk rating	Neither past due nor impaired € million	Impaired gross € million	Total € million	Cumulative impairment losses € million	Total net of impairment € million
1-3: Excellent to very good	5,010	-	5,010	-	5,010
4: Good	118	-	118	-	118
5-6: Satisfactory to acceptable	76	-	76	-	76
7-8: Special attention to substandard	-	279	279	(162)	117
9: Doubtful	-	1	1	(1)	-
At 31 December 2009	**5,204**	**280**	**5,484**	**(163)**	**5,321**

Risk rating	Neither past due nor impaired € million	Impaired gross € million	Total € million	Cumulative impairment losses € million	Total net of impairment € million
1-3: Excellent to very good	5,456	-	5,456	-	5,456
4: Good	117	-	117	-	117
5-6: Satisfactory to acceptable	4	-	4		4
7-8: Special attention to substandard	-	217	217	(117)	100
9: Doubtful	-	17	17	(17)	-
At 31 December 2008	5,577	234	5,811	(134)	5,677

These assets, originally classified as available-for-sale, were reclassified into the category loans and receivables, effective from 1 July 2008.

Derivatives

The Bank's use of exchange-traded and OTC derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from both its Banking and Treasury activities. Market views expressed through derivatives are also undertaken as part of Treasury's activities, while the transactions through which the Bank funds itself in capital markets are typically swapped into floating-rate debt with derivatives. In addition, the Bank uses credit derivatives as an alternative to investments in specific securities or to hedge certain exposures.

The risks arising from derivative instruments are combined with those deriving from all other instruments dependent on the same underlying risk factors, and are subject to overall market and credit risk limits, as well as to stress tests. Additionally, special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, credit spread risk for swaps and basis risk for futures.

The table below shows the fair value of the Bank's derivative financial assets and liabilities at 31 December 2009 and 31 December 2008.

Derivatives held for trading	Assets 2009 € million	Liabilities 2009 € million	Total 2009 € million	Assets 2008 € million	Liabilities 2008 € million	Total 2008 € million
OTC foreign currency products						
Currency swaps	119	(29)	90	41	(273)	(232)
Spot and forward currency transactions	157	(24)	133	142	(10)	132
	276	(53)	223	183	(283)	(100)
OTC interest rate products						
Interest rate swaps	78	(76)	2	110	(101)	9
Forward rate agreements	-	-	-	-	-	-
Caps/floors	-	-	-	-	-	-
	78	(76)	2	110	(101)	9
OTC credit products						
Credit default swaps	9	(24)	(15)	35	(24)	11
Banking products						
Fair value of equity derivatives held in relation to the Banking portfolio	218	(86)	132	296	-	296
Total derivatives held for trading	581	(239)	342	624	(408)	216
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	560	(168)	392	809	(224)	585
Cross currency interest rate swaps	1,397	(381)	1,016	1,416	(835)	581
	1,957	(549)	1,408	2,225	(1,059)	1,166
Derivatives designated as cash flow hedges						
Forward currency transactions	-	(15)	(15)	-	(52)	(52)
Total derivatives held for hedging	1,957	(564)	1,393	2,225	(1,111)	1,114
Total derivatives at 31 December	2,538	(803)	1,735	2,849	(1,519)	1,330

In order to manage credit risk in OTC derivative transactions, the Bank's policy is to approve *ex ante* each counterparty individually and to review its creditworthiness and eligibility regularly. Overall limits are allocated to each eligible counterparty in compliance with guidelines that set a maximum for the size and tenor of exposure, based on the counterparty's internal credit rating and outlook. For those counterparties, typically banks, that are deemed eligible for foreign exchange and OTC derivatives, a portion of the overall counterparty limit is allocated to these instruments. Utilisation of limits, whether overall counterparty limits or dedicated foreign exchange and OTC derivatives limits, is calculated using a potential future exposure methodology. This is based on a Monte Carlo simulation-based model and is measured and monitored daily for all counterparties by Risk Management.

OTC derivative transactions are normally carried out only with the most creditworthy counterparties, rated at the internal equivalent of single-A and above. Furthermore, the Bank pays great attention to mitigating the credit risk of OTC derivatives through the negotiation of appropriate legal documentation with counterparties. OTC derivatives transactions are systematically documented with a Master Agreement (MA) and a Credit Support Annex (CSA). These provide for close-out netting and the posting of collateral by the counterparty once the Bank's exposure exceeds a given threshold, which is a function of the counterparty's perceived risk rating.

The Bank has also expanded the scope for applying risk mitigation techniques by documenting the widest possible range of instruments transacted with a given counterparty under a single MA and CSA, notably foreign exchange transactions. The Bank also systematically resorts to unwinding-upon-credit-downgrading clauses and, for long-dated transactions, unilateral break clauses. Similarly, the Bank emphasises risk mitigation for repurchase and reverse repurchase agreements and related transaction types through MA documentation.

At 31 December 2009, 83 per cent (2008: 85 per cent) of the Bank's gross exposure to derivatives counterparties was against counterparties with whom an MA and CSA had been completed, allowing for receipt of collateral in the form of cash or liquid, triple-A-rated government securities.

Collateral

The Bank mitigates credit risk by holding collateral against exposures to derivative counterparties.

Counterparty exposure, for the purposes of collateralising credit risk, is only concerned with counterparties with whom the Bank has an overall net positive exposure. At 31 December 2009 this exposure stood at €1.8 billion (2008: €1.8 billion). Against this, the Bank held collateral of €1.6 billion (2008: €1.6 billion), reducing its net credit exposure to €0.2 billion (2008: €0.2 billion).

Where the Bank borrows or purchases securities subject to a commitment to resell them (a reverse repurchase agreement) but does not acquire the risk and rewards of ownership, the transactions are treated as collateralised loans. The securities are not included in the statement of financial position and are held as collateral.

The table below illustrates the fair value of collateral held that is permitted to be sold or repledged in the absence of default. In all cases the Bank has an obligation to return equivalent securities.

Collateral held as security	Held collateral 2009 € million	Sold or repledged 2009 € million	Held collateral 2008 € million	Sold or repledged 2008 € million
Derivative financial instruments				
Triple-A-rated government securities	679	-	674	-
Cash	929	929	909	909
Reverse sale and repurchase transactions	1,976	-	1,538	-
At 31 December	**3,584**	**929**	3,121	909

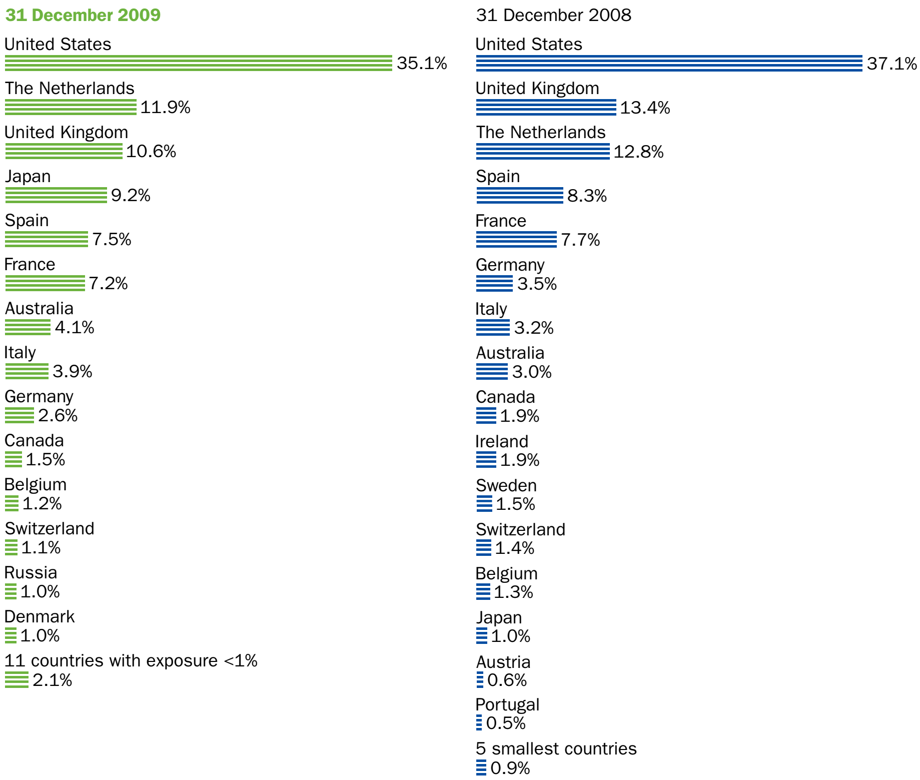
The term "collateralised placements" in the Bank's statement of financial position is used to describe the economic substance of the transactions comprising that category. Such transactions involve the purchase of a financial asset together with entering into a total return swap whereby the risks and rewards of ownership of the asset are transferred back to the entity selling the asset. For accounting purposes, therefore, the economic substance of such transactions is a form of collateralised lending. However as the assets are legally owned by the Bank, they do not represent collateral for the purposes of the above disclosure. At 31 December 2009, the Bank held €1.2 billion (2008: €1.2 billion) of collateralised placements.

Credit risk in the Treasury portfolio: Concentration

Concentration by country and region

At the end of 2009, Treasury credit risk exposure was allocated across 25 countries. The top five countries (by percentage of the total exposure) were the United States (35 per cent), the Netherlands (12 per cent), United Kingdom (11 per cent), Japan (9 per cent) and Spain (8 per cent). The top five countries at 31 December 2008 were the United States (37 per cent), United Kingdom (13 per cent), the Netherlands (13 per cent), Spain (8 per cent) and France (8 per cent).

Concentration of Treasury peak exposure by country/region

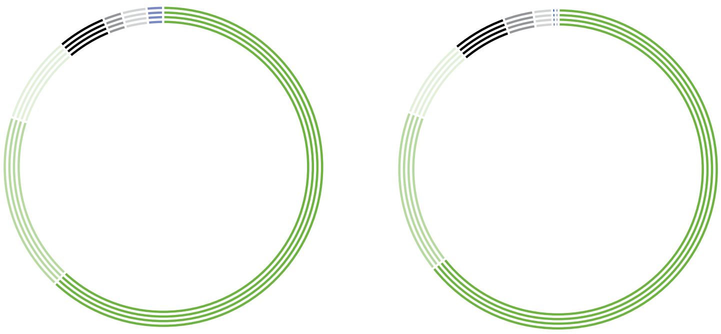


Concentration by counterparty type

By counterparty type, banks represented the largest portion of the portfolio peak exposure at 62 per cent at 31 December 2009 (2008: 65 per cent). Exposure to counterparties in the countries of operations increased to 2 per cent of peak exposure (2008: 0 per cent). Sovereign exposure at 9 per cent (2008: 8 per cent) consists mainly of US Treasury bonds posted to the Bank as collateral by OTC derivatives counterparties.

Exposure by counterparty type

31 December 2009 | **31 December 2008**



	2009	2008
Banks	62.1%	64.7%
Asset-backed securities	18.1%	16.3%
Sovereigns	8.9%	7.9%
Insurance companies	4.9%	5.6%
Derivative product companies	2.0%	3.1%
Corporates	2.4%	2.1%
Multilateral organisations	0.0%	0.2%
CoO counterparties	1.6%	0.1%

B. MARKET RISK

Market risk is the potential loss that could result from adverse market movements. The drivers of market risk are: (i) interest rate risk; (ii) foreign exchange risk; (iii) equity risk; and (iv) commodity price risk. Interest rate risks are further broken down into yield curve risk, which measures the impact of changes in the position and shape of the yield curve for a given currency, and volatility risk, which deals with risks specific to interest rate option transactions. Yield curve risk can in turn be divided into changes in the overall level of interest rates (a parallel shift of an entire yield curve), and changes in the slope or the shape of the yield curve.

Similarly, foreign exchange rate risks are split into risk emanating from changes in the level of foreign exchange rates, and volatility risk, which is inherent within foreign exchange options. In the market risk area, the beginning of the year saw spreads between the cash and money market rates at high levels, but they steadily tightened throughout the year with liquidity returning to markets. Notably the equity markets rallied from March onwards – fuelled by low interest rates and quantitative easing measures. The most significant movements in terms of direct exposure have been those in listed equities (Banking) and foreign exchange. In addition, strategic capital (interest rate) and budget (currency) hedges have been put in place, which are the Bank's most significant open positions within these risk types. As other interest rate exposure is kept to a minimum (relative to the Bank's capital), only minor movements have been observed in the resulting market risk driven profit and loss.

Market risk in the Banking portfolio

The Banking loan portfolio is match-funded by Treasury in terms of currency so that for loan facilities extended in currencies other than euros the foreign exchange risk is hedged via the Treasury portfolio. Likewise, interest rate risk to which the Banking loan portfolio would normally be exposed is managed through the Treasury portfolio. As such there is minimal residual foreign exchange or interest rate risk present in the Banking loan portfolio. The main exposure to market risk in the Banking portfolio arises from the exposure of share investments to foreign exchange and equity price risk, neither of which is captured in the VaR figures discussed under "Market risk in the Treasury portfolio" on page 60.

Foreign exchange risk

The tables below summarise the potential impact on the Bank's net profit and available-for-sale reserves from a strengthening or weakening of foreign exchange rates relative to the euro.

[12] For available-for-sale share investments, the potential impact on net profit and available-for-sale reserves from a weakening of foreign exchange rates relative to the euro has been assessed relative to the Bank's impairment triggers.

Share investments at fair value through profit or loss

	5 year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Croatian kuna	0.6	316	2
Euro	–	763	-
Hungarian forint	2.1	140	3
Polish zloty	5.5	141	8
Russian rouble	7.3	358	26
United States dollar	7.7	175	13
Other non-euro	5.2	386	20
At 31 December 2009	-	2,279	72

	5 year rolling average movement in exchange rate %	Fair value € million	Impact on net profit € million
Croatian kuna	0.8	274	2
Euro	-	850	-
Hungarian forint	2.9	175	5
Polish zloty	8.4	131	11
Russian rouble	6.7	388	26
United States dollar	9.8	272	27
Other non-euro	6.2	220	14
At 31 December 2008	-	2,310	85

Available-for-sale share investments

	5 year rolling average movement in exchange rate %	Fair value € million	Impact on available-for-sale reserves (strengthening relative to euro) € million	Impact on net profit (weakening relative to euro)[12] € million	Impact on available-for-sale reserves (weakening relative to euro)[12] € million
Croatian kuna	0.6	153	1	-	(1)
Euro	-	561	-	-	-
Hungarian forint	2.1	135	3	-	(3)
Kazakhstan tenge	4.2	230	10	-	(10)
Polish zloty	5.5	143	8	-	(8)
Romanian leu	7.7	298	23	-	(23)
Russian rouble	7.3	432	32	(7)	(25)
United States dollar	7.7	174	13	(3)	(10)
Other non-euro	5.2	329	17	(1)	(16)
At 31 December 2009	-	2,455	107	(11)	(96)

	5 year rolling average movement in exchange rate %	Fair value € million	Impact on available-for-sale reserves (strengthening relative to euro) € million	Impact on net profit (weakening relative to euro)[12] € million	Impact on available-for-sale reserves (weakening relative to euro)[12] € million
Croatian kuna	0.8	134	1	-	(1)
Euro	-	436	-	-	-
Hungarian forint	2.9	55	2	-	(2)
Polish zloty	8.4	137	12	(5)	(7)
Romanian leu	7.3	223	16	(3)	(13)
Russian rouble	6.7	535	36	(351)	315
United States dollar	9.8	153	15	(58)	43
Other non-euro	6.2	381	24	(45)	21
At 31 December 2008	-	2,054	106	(462)	356

Equity price risk

In terms of equity price risk, the Bank expects the effect on net profit and available-for-sale reserves will bear a linear relationship to the movement in equity indices. The table below summarises the potential impact on the Bank's net profit and available-for-sale reserves from an increase or decrease in relevant benchmark indices.

Share investments at fair value through profit or loss

		5 year rolling average movement in benchmark index %	Fair value € million	Impact on net profit € million
Croatia	CROBEX Index	47.0	316	148
Hungary	CHTX Index	36.6	148	54
Kazakhstan	KASE Index	125.7	62	78
Poland	WIG Index	36.7	182	67
Russia	RTS Index	74.8	509	381
Serbia	BELEX15 Index	63.2	122	77
Slovak Republic	SAX Index	14.1	-	-
Ukraine	PFTS Index	75.4	60	45
Regional and other	Weighted average	62.4	880	549
At 31 December 2009		-	2,279	1,399

		5 year rolling average movement in benchmark rate %	Fair value € million	Impact on net profit € million
Croatia	CROBEX Index	50.1	274	137
Hungary	CHTX Index	36.5	183	67
Kazakhstan	KASE Index	119.7	24	29
Poland	WIG Index	32.9	200	66
Russia	RTS Index	50.8	517	263
Serbia	BELEX15 Index	57.3	97	56
Ukraine	PFTS Index	57.0	105	60
Regional and other	Weighted average	51.4	910	468
At 31 December 2008		-	2,310	1,146

Available-for-sale share investments

		5 year rolling average movement in benchmark index %	Fair value € million	Impact on available-for-sale reserves (increase in benchmark indices) € million	Impact on net profit (decrease in benchmark indices)[13] € million	Impact on available-for-sale reserves (decrease in benchmark indices)[13] € million
Croatia	CROBEX Index	47.0	153	72	(30)	(42)
Hungary	CHTX Index	36.6	125	46	-	(46)
Kazakhstan	KASE Index	125.7	233	293	(144)	(149)
Poland	WIG Index	36.7	132	49	(11)	(38)
Romania	BET Index	47.3	336	159	-	(159)
Russia	RTS Index	74.8	551	413	(239)	(174)
Serbia	BELEX15 Index	63.2	13	8	(8)	-
Slovak Republic	SAX Index	14.1	117	16	-	(16)
Ukraine	PFTS Index	75.4	39	29	(28)	(1)
Regional and other	Weighted average	62.4	756	472	(295)	(177)
At 31 December 2009		-	2,455	1,557	(755)	(802)

		5 year rolling average movement in benchmark index %	Fair value € million	Impact on available-for-sale reserves (increase in benchmark indices) € million	Impact on net profit (decrease in benchmark indices)[13] € million	Impact on available-for-sale reserves (decrease in benchmark indices)[13] € million
Croatia	CROBEX Index	50.1	134	67	(44)	(23)
Hungary	CHTX Index	36.5	55	20	(5)	(15)
Kazakhstan	KASE Index	119.7	148	177	(127)	(21)
Poland	WIG Index	32.9	138	45	(33)	(12)
Romania	BET Index	53.3	275	147	(70)	(77)
Russia	RTS Index	50.8	654	332	(637)	305
Serbia	BELEX15 Index	57.3	13	7	(7)	-
Slovak Republic	SAX Index	27.5	103	28	-	(28)
Ukraine	PFTS Index	57.0	12	7	(23)	16
Regional and other	Weighted average	51.4	522	269	(239)	(29)
At 31 December 2008			2,054	1,099	(1,185)	116

[13] For available-for-sale share investments, the potential impact on net profit and available-for-sale reserves from a decline in benchmark indices has been assessed relative to the Bank's impairment triggers.

Market risk in the Treasury portfolio

The Bank's market risk exposure arises from the fact that the movement of interest rates and foreign exchange rates may have an impact on positions taken by the Bank.

The Bank monitors its exposure to market risk in its portfolio through a combination of limits, based on Monte Carlo simulation-based eVaR, also known as expected shortfall, and a variety of additional risk measures. The Bank's overall eVaR limit is laid down in the Board-approved T&TRMA. Foreign exchange exposures are further constrained by a dedicated eVaR sub-limit.

Additional eVaR measures are monitored, in particular for drilling down from aggregate eVaR measures to individual market factors (marginal eVaR and VaR sensitivities). For the options portfolio, dedicated options eVaR computations are performed in order to factor in the non-linear behaviour of option instruments.

For internal monitoring purposes, eVaR is defined as the average (above a certain threshold) potential loss that could be incurred due to adverse fluctuations in interest rates and foreign exchange rates over a one-day trading horizon and computed with a 95 per cent confidence level. For enhanced comparability across institutions, numbers disclosed in this financial report are also VaR-based and scaled up to a 99 per cent confidence level over a 10-trading-day horizon.

Although eVaR is a more robust measure of market risk than VaR and is used to measure Treasury portfolio risk, it also remains limited by its historical framework insofar as past market events are not necessarily a perfect predictor of future unfolding scenarios. For these reasons a number of other risk measures are employed to complement eVaR and VaR data, with numbers produced using a different set of assumptions and based on a set of risk factor sensitivities. This is also to ensure that material risks are not ignored by focusing on one particular set of risk measures. Foreign exchange risk and the various types of interest rate risks, whether for outright exposures or for options, are monitored with sensitivity-based measures independently for each currency and type of option. A series of stress tests is also produced on a daily basis. These primarily encompass:

- stress-testing the options portfolio for joint large changes in the level of the price of the underlying security and that of volatility
- analysing, for each currency separately, the profit and loss impact of large deformations in the level and shape of the yield curve
- producing stress tests covering the entire Treasury portfolio based on historical scenarios.

This approach is in line with the needs for complementary risk monitoring as evidenced in the current market turmoil, and will be further strengthened and refined as the lessons of the current crisis are digested.

The Bank aims to limit and manage market risks as far as possible through active asset and liability management. Interest rate risks are managed by synthetically hedging the interest rate profiles of assets and liabilities, mainly through the use of exchange-traded and OTC derivatives for hedging purposes. Exposures to foreign exchange and interest rate risks are measured and monitored daily by Risk Management to ensure compliance with authorised limits. The limits themselves are low compared with the Bank’s capital, and in addition to that, limit utilisation has been quite low (typically less than 50 per cent). The corresponding profit and loss movements have also been very limited through 2009, illustrating the low risk levels to market risk as specified above.

Interest rate and foreign exchange risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk.

The Bank's interest rate risk measurement is complemented by accepted market techniques including VaR, (non-credit) spread risk and volatility risk, on which frequent management reporting takes place.

At 31 December 2009, the aggregate VaR of the Bank's Treasury portfolio, calculated by reference to a 99 per cent confidence level and over a 10-trading-day horizon, stood at €2.0 million (2008: €7.6 million). Correlation effects in the portfolio reduce the aggregate VaR below the sum of the individual VaR exposures.

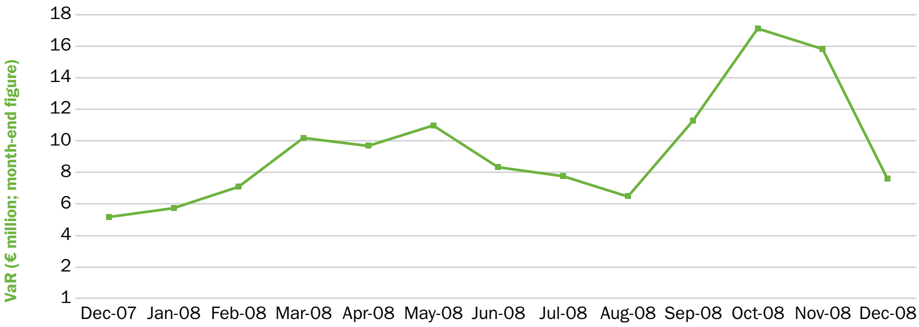
The month-end VaR attained its maximum of €11.6 million at the end of March, still within the Board-approved total VaR limit of €18 million for all Treasury funds. The average VaR over the year was €5.9 million (2008: €9.8 million), while the lowest and highest values were €1.8 million and €11.6 million, respectively (2008: €5.8 million and €17.1 million). Beginning in the second quarter, the externally managed US dollar-denominated mortgage-backed securities programme was substantially wound down causing the overall VaR to drop significantly and to remain at low levels for the second half of the year.

Total VaR- overall limit €18m, 2009

(10 Trading days, 99% confidence level, BIS compliant dataset)

Total VaR- overall limit €18m, 2008

(10 Trading days, 99% confidence level, BIS compliant dataset)



[14] The majority of the externally managed portfolio was substantially closed down as of 30 June 2009.

Market risk exposure incurred by Treasury derives from positions managed either internally by Treasury or by external asset managers (EAM) participating in the US dollar-denominated mortgage backed securities programme.[14]

Within the overall market risk exposure, the VaR of the internally managed portfolios stood at €2.0 million at the end of 2009 (2008: €1.6 million). The range during the year was between €1.3 million and €7.2 million (2008: between €1.6 million and €6.4 million). The size of the internally managed portfolio to which these figures relate was €9.6 billion at 31 December 2009 (2008: €12.7 billion).

The specific contribution from foreign exchange risk to the overall VaR stood at €0.2 million at year-end (2008: €0.6 million). As in previous years, this contribution was small throughout 2009 and never exceeded €1.3 million (2008: €1.0 million). Interest rate positioning continued to represent the majority of the Bank's market risk exposure. Interest rate option exposure remained modest throughout the year especially at the end of the year. At the end of the year, option VaR stood at €0.6 million, having peaked at €3.6 million in June.

In addition to the above, the strategic capital and budget hedges portfolio, tied to the euro interest rates and EUR/GBP currency movements, had a stand-alone VaR figure of €7 million at year-end. Since this is not actively managed (nor limit-based), it would be inappropriate to combine this with other risk measures for the Treasury portfolio. This remained the largest interest-rate risk in the Bank's book and is negatively exposed to upward moves in euro interest rates.

Equity price risk

The Bank has direct exposure to equity risk through one Treasury share investment for which the market risk is assessed on a stand-alone basis within a VaR/eVaR framework and added to the overall Treasury risk. Indirect exposure to equity risk occurs in the form of linked structures that are traded on a back-to-back basis and therefore result in no outright exposure.

Commodity price risk

At 31 December 2009 the Treasury portfolio was not exposed to any commodity risk as all such transactions had been performed on a back-to-back basis.

C. LIQUIDITY RISK

Liquidity risk management process

The Bank's liquidity policy is set out in the Liquidity Policy Review. This document is updated annually and approved by the Board of Directors. The overall liquidity policy within this document sets out the framework that ensures the Bank's ability to meet all its liquidity obligations in the medium term, with further details incorporated within the liquidity management guidelines as part of the Treasury Guidelines. As part of this annual review process, there is an assessment of the Bank's projected liquidity based on projected operational and financial cash flows, together with the proposed Borrowing Programme for the following year. The Bank's liquidity position is also monitored on a monthly basis by the Vice President, Risk Management.

The Bank is committed to maintaining a strong liquidity position. To ensure this, the Bank requires a minimum target liquidity ratio, based on a multi-year context, of 45 per cent of its next three years' net cash requirements, and 75 per cent of all committed but undisbursed project financing plus one year's debt service. This policy is implemented by maintaining liquidity in an operating target zone of 90 per cent of the next three years' net cash requirements, and 100 per cent of committed but undisbursed project financing, plus one year's debt service – above the required minimum level.

For the purposes of the Bank's internal liquidity policies, all assets managed within its Treasury portfolio are considered to represent the Bank's liquidity. On this basis the Bank exceeded the minimum requirement on each of its two key liquidity policies, both at 31 December 2009 and consistently throughout the year.

IFRS 7 Financial Instruments: Disclosures, requires a maturity analysis of the undiscounted cash flows deriving from the Bank's financial liabilities. Cash flows are presented in the earliest maturity band in which they could potentially fall due. For this purpose, the Bank profiles its callable debt in line with options conferring the right to its derivative counterparties to terminate the associated hedging instruments prior to legal maturity. This reflects how the Bank manages its debt in practice despite the fact that the debt is callable at the option of the Bank and therefore there is no legal obligation to redeem the debt before its legal maturity.

Net settling interest rate derivatives typically include interest rate swaps and forward rate agreements. Gross settling interest rate derivatives include cross currency interest rate swaps. While the pay legs of these derivatives must be disclosed, the inflows have also been presented in the accompanying table for information purposes. Foreign exchange derivatives include currency forwards and currency swaps. As exchange traded interest rate futures and options are cash settled daily, their undiscounted future cash flows at the statement of financial position date are negligible.

As the figures represent undiscounted cash flows, they do not agree to the statement of financial position.

Financial liabilities at 31 December 2009	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(2,109)	(23)	-	-	-	(2,132)
Debts evidenced by certificates	(589)	(1,835)	(3,321)	(4,491)	(12,273)	(22,509)
Other financial liabilities	-	-	(59)	-	(65)	(124)
At 31 December 2009	(2,698)	(1,858)	(3,380)	(4,491)	(12,338)	(24,765)
Trading derivative cash flows						
Net settling interest rate derivatives	-	(2)	(29)	(28)	(28)	(87)
Gross settling interest rate derivatives – outflow	(4)	(35)	(113)	(879)	(148)	(1,179)
Gross settling interest rate derivatives – inflow	2	36	113	860	129	1,140
Foreign exchange derivatives – outflow	(558)	(29)	(459)	(55)	-	(1,101)
Foreign exchange derivatives – inflow	542	27	443	50	-	1,062
Credit derivatives	-	(1)	(2)	(5)	(4)	(12)
At 31 December 2009	(18)	(4)	(47)	(57)	(51)	(177)
Hedging derivative cash flows						
Net settling interest rate derivatives	(22)	(17)	(14)	(71)	(105)	(229)
Gross settling interest rate derivatives – outflow	(92)	(419)	(959)	(1,193)	(1,837)	(4,500)
Gross settling interest rate derivatives – inflow	103	430	1,012	1,247	1,634	4,426
At 31 December 2009	(11)	(6)	39	(17)	(308)	(303)
Total financial liabilities at 31 December 2009	(2,727)	(1,868)	(3,388)	(4,565)	(12,697)	(25,245)
Other financial instruments						
Undrawn commitments						
Financial institutions	(2,257)	-	-	-	-	(2,257)
Non-financial institutions	(5,459)	-	-	-	-	(5,459)
At 31 December 2009	(7,716)	-	-	-	-	(7,716)

Financial liabilities at 31 December 2008	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Total € million
Non-derivative cash flows						
Amounts owed to credit institutions	(1,608)	(554)	-	-	-	(2,162)
Debts evidenced by certificates	(663)	(2,135)	(3,613)	(5,664)	(8,630)	(20,705)
Other financial liabilities	(983)	(32)	(50)	-	(64)	(1,129)
At 31 December 2008	(3,254)	(2,721)	(3,663)	(5,664)	(8,694)	(23,996)
Trading derivative cash flows						
Net settling interest rate derivatives	(1)	(2)	(13)	(26)	(49)	(91)
Gross settling interest rate derivatives – outflow	(106)	(142)	(355)	(1,212)	(911)	(2,726)
Gross settling interest rate derivatives – inflow	9	16	342	1,022	1,038	2,427
Foreign exchange derivatives – outflow	(84)	(83)	(193)	(167)	-	(527)
Foreign exchange derivatives – inflow	80	77	167	140	-	464
Credit derivatives	-	-	-	(3)	-	(3)
At 31 December 2008	(102)	(134)	(52)	(246)	78	(456)
Hedging derivative cash flows						
Net settling interest rate derivatives	(6)	(3)	(9)	(56)	(52)	(126)
Gross settling interest rate derivatives – outflow	(34)	(363)	(1,740)	(1,796)	(1,037)	(4,970)
Gross settling interest rate derivatives – inflow	49	372	1,590	1,537	1,098	4,646
At 31 December 2008	9	6	(159)	(315)	9	(450)
Total financial liabilities at 31 December 2008	(3,347)	(2,849)	(3,874)	(6,225)	(8,607)	(24,902)
Other financial instruments						
Undrawn commitments						
Financial institutions	(1,784)	-	-	-	-	(1,784)
Non-financial institutions	(4,685)	-	-	-	-	(4,685)
At 31 December 2008	(6,469)	-	-	-	-	(6,469)

In practice, the Bank manages its liquidity risk using cash flow forecasts that still assume the earliest possible redemption of liabilities but expected draw-downs of loan commitments. The table below is a maturity profile of the carrying value of assets and liabilities on the statement of financial position. Financial assets that are classified as trading or available-for-sale are profiled in the earliest maturity band as are other assets within the Treasury portfolio that qualify as collateral for borrowing from the European Central Bank or the United States Federal Reserve. This demonstrates that, before factoring in loan commitments, the Bank has a cumulative positive liquidity position in every maturity band. To the extent that draw downs on loan commitments may create any funding gaps, such gaps are managed through raising debt through either the Bank's commercial paper facilities or euro medium-term note programme, or by selling liquid assets.

At 31 December 2009	Up to and including 1 month € million	Over 1 month and up to and including 3 months € million	Over 3 months and up to and including 1 year € million	Over 1 year and up to and including 3 years € million	Over 3 years € million	Maturity undefined € million	Total € million
Financial assets							
Placements with and advances to credit institutions	3,138	94	15	-	-	-	3,247
Collateralised placements	-	-	-	476	695	-	1,171
Debt securities	1,332	524	617	-	-	-	2,473
Derivative financial instruments	44	131	239	266	1,858	-	2,538
Other assets	147	-	199	61	-	76	483
Treasury loans	3,329	49	81	950	912	-	5,321
Banking loans	561	407	1,491	3,803	6,144	-	12,406
Share investments	-	-	-	-	-	4,791	4,791
Intangible assets	-	-	-	-	-	53	53
Paid in capital receivable	-	-	-	-	-	17	17
Total financial assets	8,551	1,205	2,642	5,556	9,609	4,937	32,500
Financial liabilities							
Amounts owed to credit institutions	(2,106)	(23)	-	-	-	-	(2,129)
Debts evidenced by certificates	(585)	(1,718)	(2,846)	(3,586)	(8,980)	-	(17,715)
Derivative financial instruments	(117)	(14)	(108)	(133)	(431)	-	(803)
Other liabilities	(76)	-	(225)	(76)	-	-	(377)
Total financial liabilities	(2,884)	(1,755)	(3,179)	(3,795)	(9,411)	-	(21,024)
Net liquidity position at 31 December 2009	5,667	(550)	(537)	1,761	198	4,937	11,476
Cumulative net liquidity at 31 December 2009	5,667	5,117	4,580	6,341	6,539	11,476	
Other financial instruments							
Undrawn commitments							
Financial institutions	(2,257)	-	-	-	-	-	(2,257)
Non-financial institutions	(5,459)	-	-	-	-	-	(5,459)
At 31 December 2009	(7,716)	-	-	-	-	-	(7,716)

Capital management

The Bank's original authorised share capital was €10.0 billion. Under Resolution No. 59, adopted on 15 April 1996, the Board of Governors approved a doubling of the Bank's authorised capital stock to €20.0 billion. The Bank does not have any other classes of capital.

[15] Operating assets for capital management purposes relates to actual disbursements.

The Bank's capital usage is guided by statutory and financial policy parameters. Article 12 of the Agreement establishes a 1:1 gearing ratio which limits the total amount of "outstanding" loans, equity investments and guarantees made by the Bank in its countries of operations to the total amount of the Bank's unimpaired subscribed capital, reserves and surpluses. Article 12 also limits the total amount of disbursed share investments to the total amount of the Bank's unimpaired paid-in subscribed capital, surpluses and general reserve.

In 2009, the Bank redefined the interpretation of the gearing ratio to a "disbursed" or "operating assets" basis (this was previously based on operating assets plus 70 per cent of undrawn commitments basis). The amount of operating assets was €17.9 billion compared with €15.1 billion in 2008 on an equivalent basis.[15] The capital base for gearing (which excludes the Bank's strategic reserve) was €24.6 billion in 2009 and €24.0 billion in 2008. Accordingly, on the basis of the current interpretation of the gearing ratio, the Bank's gearing ratio was 73 per cent at 31 December 2009 (2008: 63 per cent). No capital utilisation limits were breached during the year (2008: nil).

In accordance with the requirements of Article 5.3 of the Agreement, the Board of Governors reviews the capital stock of the Bank at intervals of not more than five years. In 2006 the Bank concluded a review of its capital stock to the end of 2010 as part of the Third Capital Resources Review (CRR3). This included an analysis of the transition impact and operational activity of the Bank; an assessment of the economic outlook and transition challenges in the region; the formulation of medium-term portfolio development strategy and objectives; and a detailed analysis of the Bank's projected future financial performance and capital adequacy.

The Bank's statutory measure of capital adequacy under the gearing ratio has traditionally been reviewed and supplemented with a risk-based analysis. On this basis the CRR3 analysis showed that, based on the underlying operational and financial projections, the Bank should have sufficient capital to implement its operational strategy over the period 2006 to 2010 within the stated risk and financial assumptions. The review underlined that the Bank relies on a strong capital base and stressed the need for prudent financial policies supporting conservative provisioning, strong liquidity and long term profitability.

Preparation work is being undertaken on the Bank's Fourth Capital Resources Review (CRR4) which will cover the period 2011 to 2015. CRR4 will be considered at the Bank's Annual Meeting in May 2010.

As part of the preparation work for CRR4, the Bank has re-examined its risk models and methodologies. In December 2009 the Bank introduced an Economic Capital Policy, underpinned by specific risk-based capital analysis, as a key prudential policy. The Bank defines required economic capital as the potential capital losses – both expected and unexpected – it may incur based on probabilities consistent with the Bank's 'triple-A' credit rating. The main risk categories assessed under the economic capital framework are credit risk, market risk and operational risk, and the total risk is managed within an available economic capital base that excludes callable capital, while maintaining a prudent capital buffer.

One of the main objectives of implementing the Economic Capital Policy is to manage the Bank's capital within a medium-term planning framework, providing a consistent measurement of capital headroom over time. The Bank's objective is to prevent the need to call on subscribed callable capital and to use only available risk capital including paid-in capital, reserves and provisions.

At year-end, the ratio of required economic capital to available economic capital was 66 per cent, compared with a prudential threshold for this ratio of 90 per cent. The Bank's risk-based capital under this policy is managed alongside the Bank's statutory capital constraint.

The Bank is implementing a RMSP, replacing stand-alone risk models. The RMSP will allow the Bank to model risk for banking and treasury exposures under an integrated and scenario-consistent methodology. The RMSP has been implemented in phases with the final phase due to be implemented in 2010. The RMSP will enhance the Bank's capacity to analyse risks, complementing the Bank's Economic Capital Policy.

D. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Classification and fair value of financial assets and liabilities

The table below sets out the Bank's financial assets and liabilities in accordance with IAS 39 categories.

At 31 December 2009	Held for trading € million	Designated at fair value through profit or loss € million	Derivatives held for hedging purposes € million	Loans and receivables € million	Available-for-sale € million	Held-to-maturity € million	Financial liabilities at amortised cost € million	Carrying amount € million	Fair value € million
Financial assets									
Placements with and advances to credit institutions	-	-	-	3,247	-	-	-	3,247	3,247
Collateralised placements	-	-	-	1,171	-	-	-	1,171	1,244
Debt securities	174	48	-	-	1,012	1,239	-	2,473	2,473
Derivative financial instruments	363	218	1,957	-	-	-	-	2,538	2,538
Other financial assets	-	4	-	479	-	-	-	483	483
Banking share investments	-	2,279	-	-	2,455	-	-	4,734	4,734
Treasury share investments	-	-	-	-	57	-	-	57	57
Banking loan investments	-	-	-	12,406	-	-	-	12,406	9,079
Treasury loan investments	-	-	-	5,321	-	-	-	5,321	5,133
Paid in capital receivable	-	-	-	17	-	-	-	17	17
Total financial assets	537	2,549	1,957	22,641	3,524	1,239	-	32,447	29,005
Financial liabilities									
Amounts owed to credit institutions	-	-	-	-	-	-	(2,129)	(2,129)	(2,129)
Debts evidenced by certificates	-	-	-	-	-	-	(17,715)	(17,715)	(17,503)
Derivative financial instruments	(153)	(86)	(564)	-	-	-	-	(803)	(803)
Other financial liabilities	-	-	-	-	-	-	(377)	(377)	(377)
Total financial liabilities	(153)	(86)	(564)	-	-	-	(20,221)	(21,024)	(20,812)

At 31 December 2008	Held for trading € million	Designated at fair value through profit or loss € million	Derivatives held for hedging purposes € million	Loans and receivables € million	Available-for-sale € million	Held-to-maturity € million	Financial liabilities at amortised cost € million	Carrying amount € million	Fair value € million
Financial assets									
Placements with and advances to credit institutions	-	-	-	3,344	-	-	-	3,344	3,344
Collateralised placements	-	-	-	1,163	-	-	-	1,163	1,299
Debt securities	206	1,007	-	-	1,263	1,157	-	3,633	3,633
Derivative financial instruments	328	296	2,225	-	-	-	-	2,849	2,849
Other financial assets	-	805	-	334	-	-	-	1,139	1,139
Banking share investments	-	2,310	-	-	2,054	-	-	4,364	4,364
Treasury share investments	-	-	-	-	42	-	-	42	42
Banking loan investments	-	-	-	10,703	-		-	10,703	10,246
Treasury loan investments	-	-	-	5,677	-	-	-	5,677	4,916
Paid in capital receivable	-	-	-	44	-	-	-	44	44
Total financial assets	534	4,418	2,225	21,265	3,359	1,157	-	32,958	31,876
Financial liabilities									
Amounts owed to credit institutions	-	-	-	-	-	-	(2,141)	(2,141)	(2,141)
Debts evidenced by certificates	-	-	-	-	-	-	(16,295)	(16,295)	(16,038)
Derivative financial instruments	(408)	-	(1,111)	-	-	-	-	(1,519)	(1,519)
Other financial liabilities	-	(1,016)	-	-	-	-	(326)	(1,342)	(1,342)
Total financial liabilities	(408)	(1,016)	(1,111)	-	-	-	(18,762)	(21,297)	(21,040)

The Bank’s statement of financial position approximates to fair value in all financial asset and liability categories, with the exception of debt securities reclassified to Treasury loan investments, collateralised placements, Banking loan investments and debts evidenced by certificates.

The basis of fair value for Treasury loan investments listed in an active market is the quoted bid market price on the statement of financial position date.

The basis of fair value Treasury loan investments and collateralised placements that are unlisted or listed in an inactive market is determined using valuation techniques appropriate to the market and industry of each investment. The primary valuation techniques used are net asset value and earnings based valuations using comparable information and discounted cash flows. Techniques used to support these valuations include industry valuation benchmarks and recent transaction prices.

Banking loan investments are recognised at amortised cost. In assessing the fair value of loans held for investment, discount rates have been determined considering rates at which similar portfolios of loans would be fair valued at under current market conditions.

“Debts evidenced by certificates” represents the Bank’s borrowing activities executed through the issuance of commercial paper and bonds. Due to the short-tenor nature of commercial paper, amortised cost approximates fair value.

Fair value hierarchy

IFRS 7 specifies classification of fair values on the basis of a three-level hierarchy of valuation methodologies. The classifications are determined based on whether the inputs used in the measurement of fair values are observable or unobservable. These inputs have created the following fair value hierarchy.

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed share investments on exchanges (for example, RTS Stock Exchange, Zagreb Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt securities and most derivative products. The sources of inputs include prices available from screen-based services such as Reuters and Bloomberg, broker quotes and observable market data such as interest rates and foreign exchange rates which are used in deriving the valuations of derivative products.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt securities or derivative products for which not all market data is observable.

The table below provides information at 31 December 2009 about the Bank's financial assets and financial liabilities measured at fair value. Financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement.

At 31 December 2009	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities:				
At fair value through profit or loss	-	222	-	222
Available-for-sale	-	857	155	1,012
Derivative financial instruments	-	2,304	234	2,538
Share investments:				
At fair value through profit or loss (Banking portfolio)	362	-	1,917	2,279
Available-for-sale (Banking portfolio)	1,079	-	1,376	2,455
Available-for-sale (Treasury portfolio)	-	57	-	57
Total financial assets at fair value	1,441	3,440	3,682	8,563
Derivative financial instruments	-	(707)	(96)	(803)
Total financial liabilities at fair value	-	(707)	(96)	(803)

There have been no transfers between Level 1 and Level 2 during the year.

The table below provides a reconciliation of the fair values of the Bank's Level 3 financial assets and financial liabilities for the year ended 31 December 2009:

Level 3 financial assets and financial liabilities at 31 December 2009	Debt securities € million	Derivative financial instruments € million	Banking share investments € million	Total assets € million	Derivative financial instruments € million	Total liabilities € million
Balance at 31 December 2008	138	310	3,475	3,923	(16)	(16)
Total gains/(losses) for the year ended 31 December 2009 in:						
Net loss[16]	-	(11)	(628)	(639)	(81)	(81)
Other comprehensive income	19	-	(47)	(28)	-	-
Purchases/issues	-	-	751	751	-	-
Sales/settlements	(2)	(65)	(120)	(187)	1	1
Transfers out of Level 3	-	-	(138)	(138)	-	-
Balance at 31 December 2009	155	234	3,293	3,682	(96)	(96)
Total gains/(losses) for the period included in net loss for assets and liabilities held at 31 December 2009	19	(13)	(652)	(646)	(80)	(80)

[16] Included within the net loss on derivative financial instruments is a loss of €26 million relating to counterparty credit valuation adjustment.

Level 3 – sensitivity analysis

The table below presents the Level 3 financial instruments carried at fair value at 31 December 2009, main valuation models/techniques used in the valuation of these financial instruments and possible increases or decreases in fair value based on reasonably possible alternative assumptions:

Assets	Main valuation models/techniques	Carrying amount € million	Impact on net loss in 2009: Favourable change € million	Impact on net loss in 2009: Unfavourable change € million	Impact on equity in 2009: Favourable change € million	Impact on equity in 2009: Unfavourable change € million
Debt securities	Broker quotes and observable market data	155	-	(2)	-	-
Derivative financial instruments	Discounted cash flow models	16	-	(5)	-	-
Banking derivatives	NAV multiples, EBITDA multiples, discounted cash flow models, compounded interest	218	21	(15)	-	-
Share investments designated at FVTPL	NAV multiples, EBITDA multiples, discounted cash flow models	1,917	200	(142)	-	-
Available-for-sale unlisted equities	NAV multiples, EBITDA multiples, discounted cash flow models	1,376	-	(15)	121	(66)
At 31 December		3,682	221	(179)	121	(66)

Liabilities	Main valuation models/techniques	Carrying amount € million	Impact on net loss in 2009: Favourable change € million	Impact on net loss in 2009: Unfavourable change € million	Impact on equity in 2009: Favourable change € million	Impact on equity in 2009: Unfavourable change € million
Banking derivatives	NAV multiples, EBITDA multiples, discounted cash flow models, compounded interest	(86)	8	(6)	-	-
At 31 December		(86)	8	(6)	-	-

Note: NAV – net asset value; EBITDA – earnings before interest, tax, depreciation and amortisation.

Banking share investments and derivatives

The Bank's unlisted equity portfolio comprises associate share investments, equity derivatives and high-risk equity funds (designated at fair value through profit or loss) and share investments classified as available-for-sale. The main valuation models/techniques used to fair value these financial instruments are net asset value ("NAV") multiples, earnings before interest, tax, depreciation and amortisation ("EBITDA") multiples and discounted cash flow ("DCF") models.

NAV multiples are most commonly applied to bank investments and equity funds. Reasonable possible alternative valuations have been determined based on the NAV multiple ranges in the valuations received for bank investments, and by considering the impact of adjusting the portfolio discount applied to equity funds. For investments valued using EBITDA multiples and DCF models, sensitivity analyses have been performed for the largest investments using reasonable possible alternative assumptions for each investment (for example, increase/decrease in discount rate).

Treasury debt securities and derivative financial instruments

The Bank's derivative instruments are valued though discounted cash flow models. Valuations are reconciled to counterparty statements on a monthly basis. Therefore the reasonable possible alternative valuations have been determined based on the range of discrepancies between the Bank's valuations and those of our counterparties.

A majority of the Bank's available-for-sale debt securities are priced via screen-based services such as Reuters and Bloomberg or using broker quotes. For the few debt securities where an active market does not exist, reasonable, alternative valuations have been derived from discounted cash flow models or reasonable adjustments to similarly priced assets.

Notes to the financial statements

1. ESTABLISHMENT OF THE BANK

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development, whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990. At 31 December 2009, the Bank's shareholders comprised 61 countries, together with the European Union and the European Investment Bank.

ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected with the Bank in the United Kingdom are confirmed and supplemented in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed in London at the start of the Bank's operations on 15 April 1991.

2. SEGMENT INFORMATION

The Bank's activities are primarily Banking and Treasury. Banking activities represent investments in projects that, in accordance with the Agreement, are made for the purpose of assisting the countries of operations in their transition to a market economy, while applying sound banking principles. The main investment products are loans, share investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risks and assisting clients in asset and liability management matters.

The Bank's remaining business activities support the Banking and Treasury functions. Information on the financial performance of Banking and Treasury operations are prepared regularly and provided to the chief operating decision-maker. On this basis, Banking and Treasury operations have been identified as the operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, is the President.

Segment performance

The President assesses the performance of the operating segments based on the net loss for the year which is measured in a manner consistent with the financial statements.

The segment information provided to the President for the operating segments for the year ended 31 December 2009 and 31 December 2008 is as follows:

	Banking 2009 € million	Treasury 2009 € million	Aggregated 2009 € million	Banking 2008 € million	Treasury 2008 € million	Aggregated 2008 € million
Interest income	648	240	888	668	629	1,297
Other (expense)/income	(734)	87	(647)	(1,083)	(72)	(1,155)
Fair value movement on paid-in capital receivable and associated hedges	-	-	-	3	-	3
Total segment (expense)/revenue	(86)	327	241	(412)	557	145
Less interest expenses and similar charges[17]	(365)	(173)	(538)	(593)	(563)	(1,156)
Allocation of the return on capital	209	23	232	471	52	523
Fair value movement on non-qualifying and ineffective hedges	121	2	123	-	361	361
Less general administrative expenses	(206)	(14)	(220)	(208)	(19)	(227)
Less depreciation and amortisation	(16)	(1)	(17)	(15)	(1)	(16)
Segment result before provisions	(343)	164	(179)	(757)	387	(370)
Provisions for impairment of loan investments	(535)	(32)	(567)	(105)	(127)	(232)
Net (loss)/profit for the year	(878)	132	(746)	(862)	260	(602)
Transfers of net income approved by the Board of Governors			(165)			(115)
Net loss after transfers approved by the Board of Governors			(911)			(717)
Segment assets[18]	17,660	14,862	32,522	15,654	17,349	33,003
Paid-in capital receivable			17			44
Total assets			32,539			33,047
Segment liabilities						
Total liabilities	210	20,814	21,024	113	21,184	21,297

[17] The Bank's internal interest expense is determined by the rates at which Treasury can borrow funds on the external market. Interest expense is charged to Banking either at a benchmark rate of return for equity investments or at the appropriate base rate.

[18] The amounts provided to the President with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. Assets and liabilities are allocated based on the operations of the segment. Non-segment specific assets and liabilities are allocated on the basis of staff costs.

Segment revenues – Geographic

The Bank's activities are divided into five regions for internal management purposes.

Risk rating	Segment revenue 2009 € million	Segment revenue 2008 € million
Advanced countries[19]	(60)	(271)
Early/intermediate countries[20]	37	217
Russia	(67)	(358)
Turkey	4	-
OECD (Treasury operations)	327	557
Total	241	145

[19] Advanced countries are Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

[20] Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

There were no revenues deriving from transactions with a single external customer that amounted to 10 per cent or more of the Bank's revenues.

3. NET INTEREST INCOME

	2009 € million	2008 € million
Interest and similar income:		
Banking loans	648	668
Treasury loans	104	294
Debt securities	53	74
Collateralised placements	21	76
Reverse repurchase agreements	13	35
Cash and short-term funds	33	128
Other	16	25
Interest and similar income	888	1,300
Interest expenses and similar charges		
Debts evidenced by certificates	(287)	(556)
Other	(19)	(77)
Interest expenses and similar charges	(306)	(633)
Net interest income	582	667

Interest income accrued on impaired financial assets at 31 December 2009 was €0.1 million (2008: €0.2 million).

4. NET FEE AND COMMISSION INCOME

The main components of net fee and commission income are as follows:

	2009 € million	2008 € million
Trade finance fees	4	3
Administration fees	4	1
Cancellation fees	2	-
Syndication and agency fees	2	2
Arrangement fees	2	-
Other	2	2
Donor fund expenses	(2)	(2)
Net fee and commission income	14	6

Front-end and commitment fees of €120 million (2008: €54 million) received in 2009, together with related direct costs of €9 million (2008: €7 million), have been deferred on the statement of financial position. They will be recognised in interest income over the period from disbursement to repayment of the related loan, in accordance with IAS 18. In 2009, €29 million (2008: €22 million) of previously deferred fees and direct costs were recognised in interest income.

5. NET LOSSES FROM SHARE INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 € million	2008 € million
Net unrealised losses from associate share investments and high-risk equity funds	(465)	(1,399)
Net realised gains from associate share investments and high-risk equity funds	18	199
Net unrealised (losses)/gains from equity related derivatives	(165)	307
Net realised gains from equity related derivatives	65	1
Net losses from share investments at fair value through profit or loss	(547)	(892)

6. NET LOSSES FROM AVAILABLE-FOR-SALE SHARE INVESTMENTS

	2009 € million	2008 € million
Net realised gains from available-for-sale share investments	15	220
Reversal of previously recognised impairment losses due to sale of share investments or cash recoveries	75	9
Impairment losses from available-for-sale share investments	(331)	(494)
Net losses from available-for-sale share investments	**(241)**	(265)

7. NET LOSSES FROM TREASURY INVESTMENTS

	2009 € million	2008 € million
Realised (losses)/gains from available-for-sale Treasury assets	(1)	1
Realised losses on Treasury loans	(8)	-
Impairment losses from available-for-sale Treasury assets	-	(3)
Net losses from Treasury investments	**(9)**	(2)

8. NET GAINS/(LOSSES) FROM DEALING ACTIVITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 € million	2008 € million
Debt buy-backs and termination of related derivatives	13	13
Internally managed dealing portfolio held for trading	46	16
Internally managed dealing portfolio designated at fair value through profit or loss	23	(72)
Externally managed dealing portfolio designated at fair value through profit or loss	13	(26)
Net gains/(losses) from dealing activities at fair value through profit or loss	**95**	(69)

All debt securities acquired as part of a negative basis strategy (that is, where the credit risk on the debt security is hedged using a credit default swap) have been designated at fair value through profit or loss as it significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the bond and related derivative on different bases.

9. FAIR VALUE MOVEMENT ON NON-QUALIFYING AND INEFFECTIVE HEDGES

The hedging practices and accounting treatment are disclosed under "Derivative financial instruments and hedge accounting" in the Accounting policies on page 31.

Fair value movement on non-qualifying and ineffective hedges

The fair value movement on non-qualifying and ineffective hedges represents an accounting adjustment in respect of hedging relationships undertaken by the Bank that either do not qualify for hedge accounting or do not fully offset when measured in accordance with IFRS. This unrealised adjustment does not reflect economic substance, inasmuch as the reported losses would not be realised in cash were the hedging relationships to be terminated. The adjustment will reverse over time as the underlying deals approach their maturities.

The Bank applies hedge accounting where there is an identifiable, one-to-one relationship between a hedging derivative instrument and a hedged cash instrument. These relationships predominantly arise within the context of the Bank's borrowing activities in which the Bank's issued bonds are combined with swaps to achieve floating-rate debt in the currency sought by the Bank. While such hedges are matched in cash-flow terms, accounting rules may require different valuation methodologies to be applied to such cash flows. In particular, a pricing component of currency swaps (known as the basis swap spread) is not applied to the related hedged bond. This component is a feature of supply and demand requirements for other currencies relative to the US dollar or euro. Such differences can create hedge ineffectiveness or hedge failures under IFRS, the combined effect of which is reported within this line of the income statement. For the year this resulted in a gain of €18 million (2008: gain of €162 million), comprising gains of €276 million (2008: gain of €560 million) on the derivative hedging instruments and losses of €258 million (2008: loss of €398 million) on the hedged items.

In addition to the one-to-one hedge relationships for which the Bank applies hedge accounting, the Bank also hedges interest rate risk across total assets and liabilities on a portfolio basis, for which hedge accounting is not applied. This activity results in the gains or losses arising on the hedging derivative instruments being recognised in the periods in which they occur, while the offsetting impact deriving from the hedged cash instruments will accrue over a different timescale in keeping with the interest rates applicable to the specific periods for those instruments. For the year this resulted in a loss of €29 million (2008: loss of €28 million).

In July 2008, in anticipation of falling interest rates for the euro, the Bank's Executive Committee approved a hedging strategy to lock in the interest rate return on the investment of the Bank's capital until 2010. This was achieved through positions taken in exchange-traded futures contracts. Initially approximately 50 per cent of the Bank's capital was hedged with a further 25 per cent added in December 2008. This activity does not, however, qualify for hedge accounting. Therefore the impact of interest rate changes is immediately reflected in the price changes of the futures contracts and reported in the income statement as those prices change. The offsetting changes in the investment return achieved on the Bank's capital is, however, only captured on an accruals basis over time and so will be reflected in the Bank's income statement in future reporting periods. At 31 December the Bank had recorded a gain of €134 million (2008: gain of €227 million) on these futures contracts.

The combined effect of all the hedging activities described above was a gain of €123 million for the year (2008: gain of €361 million).

Cash flow hedges

The Bank hedges on an annual basis to minimise the exchange rate risk associated with incurring administrative expenses in sterling. At 31 December 2009 cash flow hedges were in place to hedge 50 per cent of the budgeted sterling expenditure for 2010 and 25 per cent for 2011. In 2009 and 2008 there was no ineffectiveness recognised in the income statement arising from cash flow hedges.

10. PROVISIONS FOR IMPAIRMENT OF BANKING LOAN INVESTMENTS

Charge for the year	2009 € million	2008 € million
Portfolio provisions for the unidentified impairment of loan investments:		
Non-sovereign loan investments	(357)	(63)
Sovereign loan investments	(7)	-
Specific provisions for the identified impairment of loan investments[21]	(171)	(42)
Provisions for impairment of Banking loan investments	**(535)**	(105)

[21] During the year, new specific provisions for the identified impairment of loan investments of €209 million (2008: €45 million) were made and €38 million (2008: €3 million) were released/recovered. This resulted in a net charge to the income statement of €171 million (2008: €42 million).

Movement in provisions	2009 € million	2008 € million
At 1 January	(227)	(124)
Charge for the year	(535)	(105)
Unwinding of the discount relating to the identified impairment of assets	3	-
Foreign exchange adjustments	11	1
Release against amounts written off	29	1
At 31 December	**(719)**	(227)

Analysed between

Portfolio provisions for the unidentified impairment of loan investments:		
Non-sovereign loan investments	(491)	(148)
Sovereign loan investments	(12)	(5)
Specific provisions for the identified impairment of loan investments	(216)	(74)
At 31 December	**(719)**	(227)

11. PROVISIONS FOR IMPAIRMENT OF TREASURY LOAN INVESTMENTS

	2009 € million	2008 € million
Specific provisions for the identified impairment of Treasury loan investments	(32)	(127)
Provisions for impairment of Treasury loan investments	**(32)**	(127)

12. GENERAL ADMINISTRATIVE EXPENSES

	2009 € million	2008 € million
Personnel costs	(157)	(157)
Overhead expenses net of government grants	(72)	(77)
General administrative expenses	(229)	(234)
Deferral of direct costs related to loan origination and commitment maintenance	9	7
Net general administrative expenses	**(220)**	(227)

Sterling general administrative expenses totalled £192 million (2008: £185 million).[22]

The average number of staff included in personnel costs during the year were: 1,120 Headquarters staff (2008: 1,076); 330 locally hired staff in Resident Offices (2008: 301); 110 contract staff, comprising special employees, interns/short-term staff and locally hired general service contract staff (2008: 93); and 74 Board of Directors personnel (2008: 76). Some 57 staff members were externally funded (2008: 55). In addition, the Russia Small Business Fund engaged 16 Project Bureau staff up to June 2009 (2008: 21) on projects in Russia, with no Project Bureau staff being engaged in the second half of 2009.

[22] Excludes depreciation.

Staff numbers at 31 December 2009 consisted of: 1,140 Headquarters staff (comprising regular and fixed-term staff in Bank departments and Board support staff) (2008: 1,099); 352 locally hired staff in Resident Offices (2008: 308); 121 contract staff (2008: 98), comprising 26 special employees (2008: 18), 68 interns/short-term staff (2008: 54) and 27 locally hired general service contract staff (2008: 26); and 72 Board of Directors personnel (2008: 76). Some 62 staff members were externally funded (2008: 51).

Direct costs of €9 million (2008: €7 million) relating to loan origination and commitment maintenance in 2009, together with received front-end and commitment fees of €120 million (2008: €54 million), have been deferred on the statement of financial position in accordance with IAS 18. These figures will be recognised in interest income over the period from disbursement to repayment of the related loan.

The following fees for work performed by the Bank's external auditors were included in overhead expenses:

Audit and assurance services	2009 € 000	2008 € 000
Services as auditors of the Bank	(237)	(249)
Internal controls framework assurance	(122)	(128)
Retirement plan audit	(21)	(22)
Tax recovery audit	(7)	(8)
Audit and assurance services	**(387)**	(407)

13. PLACEMENTS WITH AND ADVANCES TO CREDIT INSTITUTIONS

Analysed between	2009 € million	2008 € million
Current	3,247	3,344
Non-current	-	-
At 31 December	**3,247**	3,344

"Current" is defined as those assets held for, or liabilities due, within the next 12 months. All other assets or liabilities are "non-current".

14. DEBT SECURITIES

Dealing portfolio at fair value through profit or loss	2009 € million	2008 € million
Debt securities held for trading	174	206
Debt securities at fair value through profit or loss	-	351
Externally managed funds at fair value through profit or loss	48	656
At 31 December	222	1,213
Available-for-sale		
Available-for-sale portfolio	1,012	1,263
At 31 December	1,012	1,263
Held-to-maturity		
Held-to-maturity securities	1,239	1,157
At 31 December	1,239	1,157
Debt securities at 31 December	2,473	3,633

Analysed between	€ million	€ million
Current	1,917	2,441
Non-current	556	1,192
Debt securities at 31 December	2,473	3,633

15. COLLATERALISED PLACEMENTS

Analysed between	2009 € million	2008 € million
Current	-	-
Non-current	1,171	1,163
At 31 December	1,171	1,163

16. OTHER FINANCIAL ASSETS

	2009 € million	2008 € million
Fair value of derivatives designated as fair value hedges	1,957	2,225
Fair value of derivatives held for trading	363	328
Fair value of other derivatives held in relation to the Banking portfolio	218	296
Externally managed funds at fair value through profit or loss	4	805
Interest receivable	158	244
Other	321	90
At 31 December	3,021	3,988

Analysed between	€ million	€ million
Current	760	2,769
Non-current	2,261	1,219
At 31 December	3,021	3,988

17. TREASURY LOAN INVESTMENTS

Loans and receivables	2009 € million	2008 € million
Loans and receivables	5,484	5,811
Less cumulative impairment losses	(163)	(134)
At 31 December	5,321	5,677

Analysed between	2009 € million	2008 € million
Current	344	-
Non-current	4,977	5,677
At 31 December	5,321	5,677

Cumulative impairment losses	2009 € million	2008 € million
Balance at 1 January	(134)	-
Charge for the year	(32)	(127)
Foreign exchange movements	3	(7)
At 31 December	(163)	(134)

The fair values of financial assets reclassified during 2008, as of the respective dates of reclassification, are disclosed below. No financial assets were reclassified in 2009.

Financial assets reclassified in the year	31 December 2009 Carrying value € million	31 December 2008 Carrying value € million	1 July 2008 Fair value on date of reclassification € million
Debt securities reclassified from available-for-sale to loans and receivables (2007: no such reclassification permitted)	5,321	5,677	5,716
	5,321	5,677	5,716

For the fair value of Treasury loan investments at 31 December 2009, please refer to the Fair Value of Financial Assets and Liabilities section under Risk Management on page 68.

The Bank has recognised the following gains, losses, income and expenses in the income statement in respect of reclassified financial assets:

	2009 € million	2008 After reclassification € million	2008 Before reclassification € million
Interest income	104	150	144
Impairment	(32)	(127)	(3)

If the Bank had not reclassified financial assets during 2008, additional fair value losses recognised in 2009 in the income statement would have been nil (2008: nil), and gains recognised in the revaluation reserve in equity would have been €246 million (2008: losses of €714 million). If the Bank had not reclassified financial assets from the available-for-sale category into the treasury loans and receivables category, the impairment charges and interest income recorded by the Bank would have remained unchanged.

18. BANKING LOAN INVESTMENTS

	2009 Sovereign loans € million	2009 Non-sovereign loans € million	2009 Total loans € million	2008 Sovereign loans € million	2008 Non-sovereign loans € million	2008 Total loans € million
Operating assets						
At 1 January	2,068	8,862	10,930	1,928	7,057	8,985
Movement in fair value revaluation[23]	-	9	9	-	-	-
Disbursements	539	5,551	6,090	455	4,849	5,304
Repayments and prepayments	(302)	(3,324)	(3,626)	(357)	(3,048)	(3,405)
Foreign exchange movements	(26)	(141)	(167)	47	29	76
Movement in net deferral of front end fees and related direct costs	(15)	(67)	(82)	(5)	(20)	(25)
Written off	-	(29)	(29)	-	(5)	(5)
At 31 December	2,264	10,861	13,125	2,068	8,862	10,930
Impairment at 31 December	(12)	(707)	(719)	(5)	(222)	(227)
Total operating assets net of impairment at 31 December	2,252	10,154	12,406	2,063	8,640	10,703

Analysed between	2009 € million	2008 € million
Current	2,459	2,297
Non-current	9,947	8,406
Total operating assets net of impairment at 31 December	12,406	10,703

[23] The movement in fair value revaluation relates to those fixed-rate loans that form part of a qualifying hedge relationship with a derivative position and as such are re-measured to fair value in respect of interest rate risk.

At 31 December 2009 the Bank categorised 34 loans as impaired, with operating assets totalling €305 million (2008: 17 loans totalling €127 million). Specific provisions on these assets amounted to €216 million (2008: €74 million).

19. SHARE INVESTMENTS

	Fair value through profit or loss unlisted share investments € million	Fair value through profit or loss listed share investments € million	**Fair value through profit or loss total share investments € million**	Available-for-sale unlisted share investments € million	Available-for-sale listed share investments € million	**Available-for-sale total share investments € million**	**Total share investments € million**
Outstanding disbursements							
At 31 December 2007	1,220	260	1,480	969	636	1,605	3,085
Transfer between classes	-	-	-	(7)	7	-	-
Disbursements	404	8	412	440	360	800	1,212
Disposals	(164)	-	(164)	(173)	(37)	(210)	(374)
Written off	(8)	-	(8)	(6)	-	(6)	(14)
At 31 December 2008	1,452	268	1,720	1,223	966	2,189	3,909
Transfer between classes	**(11)**	**11**	**-**	**(3)**	**3**	**-**	**-**
Disbursements	**486**	**-**	**486**	**230**	**94**	**324**	**810**
Disposals	**(37)**	**-**	**(37)**	**(62)**	**(79)**	**(141)**	**(178)**
Written off	**(15)**	**-**	**(15)**	**(6)**	**-**	**(6)**	**(21)**
At 31 December 2009	**1,875**	**279**	**2,154**	**1,382**	**984**	**2,366**	**4,520**
Fair value adjustment							
At 31 December 2007	990	999	1,989	257	1,262	1,519	3,508
Transfer between classes	-	-	-	(3)	3	-	-
Movement in fair value revaluation	(456)	(943)	(1,399)	(50)	(1,119)	(1,169)	(2,568)
Impairment of available-for-sale share investments	-	-	-	(89)	(396)	(485)	(485)
At 31 December 2008	534	56	590	115	(250)	(135)	455
Transfer between classes	**-**	**-**	**-**	**(1)**	**1**	**-**	**-**
Movement in fair value revaluation	**(506)**	**41**	**(465)**	**(4)**	**484**	**480**	**15**
Impairment of available-for-sale share investments	**-**	**-**	**-**	**(167)**	**(89)**	**(256)**	**(256)**
At 31 December 2009	**28**	**97**	**125**	**(57)**	**146**	**89**	**214**
Fair value at 31 December 2009	**1,903**	**376**	**2,279**	**1,325**	**1,130**	**2,455**	**4,734**
Fair value at 31 December 2008	1,986	324	2,310	1,338	716	2,054	4,364

At 31 December 2009 the Bank categorised 46 available-for-sale share investments as impaired, with outstanding disbursements totalling €982 million (2008: 26 available-for-sale share investments totalling €651 million).

Summarised financial information on share investments where the Bank owned greater than or equal to 20 per cent of the investee share capital at 31 December 2009 is detailed under note 30, "Related parties".

20. INTANGIBLE ASSETS

	Computer software development costs 2009 € million	Computer software development costs 2008 € million
Cost		
At 1 January	122	102
Additions	16	20
At 31 December	**138**	**122**
Amortisation		
At 1 January	(73)	(63)
Charge	(12)	(11)
At 31 December	**(85)**	**(74)**
Net book value at 31 December	**53**	**48**

21. PROPERTY, TECHNOLOGY AND OFFICE EQUIPMENT

	Property 2009 € million	Property under construction 2009 € million	Technology and office equipment 2009 € million	Total 2009 € million	Property 2008 € million	Property under construction 2008 € million	Technology and office equipment 2008 € million	Total 2008 € million
Cost								
At 1 January	40	2	26	68	39	2	33	74
Additions	-	1	2	3	-	2	1	3
Transfers	-	-	-	-	1	(2)	1	-
Disposals	-	-	(1)	(1)	-	-	(9)	(9)
At 31 December	**40**	**3**	**27**	**70**	40	2	26	68
Depreciation								
At 1 January	(9)	-	(18)	(27)	(7)	-	(24)	(31)
Charge	(3)	-	(2)	(5)	(2)	-	(3)	(5)
Disposals	-	-	1	1	-	-	9	9
At 31 December	**(12)**	**-**	**(19)**	**(31)**	(9)	-	(18)	(27)
Net book value at 31 December	**28**	**3**	**8**	**39**	31	2	8	41

Property includes fixtures and fittings.

22. BORROWINGS

Amounts owed to credit institutions	2009 € million	2008 € million
Current	2,129	2,141

23. DEBTS EVIDENCED BY CERTIFICATES

The Bank's outstanding debts evidenced by certificates and related fair value hedging swaps are summarised below, both in the currency of the bond and the currency obtained after currency swap hedges have been taken into account.

	Adjusted principal value € million	Net currency obligations 2009 € million	Net currency obligations 2008 € million
Australian dollars	1,002	154	-
Canadian dollars	47	-	-
Euro	1,515	4,126	2,053
Hungarian forints	15	-	-
Icelandic krona	7	-	-
Japanese yen	2,060	116	114
Mexican peso	118	-	-
New Taiwan dollars	98	-	-
New Turkish lira	1,084	-	-
New Zealand dollars	386	-	-
Norwegian krone	229	-	-
Romanian leu	63	4	-
Russian roubles	1,317	1,020	735
South African rands	1,440	-	-
Sterling	2,271	1,315	1,228
United States dollars	6,063	10,980	12,165
At 31 December	**17,715**	**17,715**	16,295

Where the swap counterparty exercises a right to terminate the hedging swap prior to legal maturity, the Bank is committed to exercise the same right with its issued bond.

Analysed between	2009 € million	2008 € million
Current	5,149	7,667
Non-current	12,566	8,628
Debt evidenced by certificates at 31 December	**17,715**	16,295

There were no defaults or breaches on financial liabilities during 2009 (2008: nil).

During the year the Bank redeemed €258 million of bonds and medium-term notes prior to maturity (2008: €398 million), generating a net gain of €13 million (2008: €13 million).

24. OTHER FINANCIAL LIABILITIES

	2009 € million	2008 € million
Fair value of derivatives designated as fair value hedges	549	1,059
Fair value of derivatives designated as cash flow hedges	15	52
Fair value of derivatives held for trading	153	408
Fair value of other derivatives held in relation to the Banking portfolio	86	-
Externally managed funds at fair value through profit or loss	-	1,016
Interest payable	174	196
Other	203	130
At 31 December	**1,180**	2,861

Analysed between	2009 € million	2008 € million
Current	540	1,779
Non-current	640	1,082
At 31 December	**1,180**	2,861

25. SUBSCRIBED CAPITAL

	2009 Number of shares	2009 Total € million	2008 Number of shares	2008 Total € million
Authorised shared capital	2,000,000	20,000	2,000,000	20,000
of which				
Subscriptions by members – initial capital	992,175	9,922	992,175	9,922
Subscriptions by members – capital increase	987,175	9,872	987,175	9,872
Subscribed capital	1,979,350	19,794	1,979,350	19,794
Unsubscribed capital	20,650	206	20,650	206
At 31 December	**2,000,000**	**20,000**	2,000,000	20,000

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. Payment for the paid-in shares subscribed to by members is made over a period of years determined in advance. Article 6.4 of the Agreement states that payment of the amount subscribed to the callable capital is subject to call by the Bank, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 states that in the event of the termination of the Bank's operations, the liability of all members for all uncalled subscriptions to the capital stock will continue until all claims of creditors, including all contingent claims, have been discharged.

The Agreement allows for a member to withdraw from the Bank, in which case the Bank is required to repurchase the former member's shares. No member has ever withdrawn its membership. Nor has the Bank received notice of an intention to withdraw. One member, Australia, which had previously indicated that it might give such notice, has subsequently indicated that it does not intend to give such notice. The stability in the membership reflects the fact that the members are 61 countries and two intergovernmental organisations, and that the purpose of the Bank is to foster the transition process in politically qualifying countries from central Europe to central Asia.

Moreover, there is a financial disincentive to withdrawing membership. The upper limit of the amount of the repurchase price of the former member's shares is the amount of its paid-in capital, yet a former member remains liable for its direct obligations and its contingent liabilities to the Bank for as long as any part of the loans, equity investments or guarantees contracted before it ceased to be a member are outstanding. Were a member to withdraw from the Bank, the Bank would be able to impose conditions and set dates in respect of payments for shares repurchased. If, for example, paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. If a payment was then made to a former member, the member would be required to repay, on demand, the amount by which the repurchase price would have been reduced if the losses for which the former member remained liable had been taken into account at the time of payment.

Under the Agreement, payment for the paid-in shares of the initial capital stock subscribed to by members was made in five equal annual instalments. Of each instalment, up to 50 per cent was payable in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the subscribing member and payable to the Bank at par value upon demand. Under Resolution No. 59, payment for the paid-in shares subscribed to by members under the capital increase was made in eight equal annual instalments.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of unallocated shares and votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members that have failed to pay any part of the amounts due in respect of their capital subscription are proportionately reduced until payment is made.

24 Voting rights are restricted for non-payment of amounts due in respect of the member's obligations in relation to paid-in shares. Total votes before restrictions amount to 1,979,350 (2008: 1,979,350).

Statement of capital subscriptions

At 31 December 2009	Total shares (number)	Resulting votes[24] (number)	Total capital € million	Callable capital € million	Paid-in capital € million
Members					
Albania	2,000	1,557	20	15	5
Armenia	1,000	1,000	10	7	3
Australia	20,000	20,000	200	148	52
Austria	45,600	45,600	456	336	120
Azerbaijan	2,000	1,857	20	15	5
Belarus	4,000	4,000	40	30	10
Belgium	45,600	45,600	456	336	120
Bosnia and Herzegovina	3,380	3,380	33	25	8
Bulgaria	15,800	15,800	158	116	42
Canada	68,000	68,000	680	501	179
Croatia	7,292	7,292	72	54	18
Cyprus	2,000	2,000	20	15	5
Czech Republic	17,066	17,066	170	125	45
Denmark	24,000	24,000	240	177	63
Egypt	2,000	1,750	20	15	5
Estonia	2,000	2,000	20	15	5
European Investment Bank	60,000	60,000	600	442	158
European Union	60,000	60,000	600	442	158
Finland	25,000	25,000	250	184	66
FYR Macedonia	1,382	1,382	14	10	4
France	170,350	170,350	1,704	1,257	447
Georgia	2,000	367	20	15	5
Germany	170,350	170,350	1,704	1,257	447
Greece	13,000	13,000	130	96	34
Hungary	15,800	15,800	158	116	42
Iceland	2,000	2,000	20	15	5
Ireland	6,000	6,000	60	44	16
Israel	13,000	13,000	130	96	34
Italy	170,350	169,606	1,704	1,257	447
Japan	170,350	170,350	1,704	1,257	447
Kazakhstan	4,600	4,600	46	34	12
Korea, Republic of	20,000	20,000	200	147	53
Kyrgyz Republic	2,000	667	20	15	5
Latvia	2,000	2,000	20	15	5
Liechtenstein	400	397	4	3	1
Lithuania	2,000	2,000	20	15	5
Luxembourg	4,000	4,000	40	29	11
Malta	200	200	2	1	1
Mexico	3,000	3,000	30	21	9
Moldova	2,000	1,227	20	15	5
Mongolia	200	200	2	1	1
Montenegro	400	400	4	3	1
Morocco	1,000	1,000	10	7	3
Netherlands	49,600	49,600	496	366	130
New Zealand	1,000	1,000	10	7	3
Norway	25,000	25,000	250	184	66
Poland	25,600	25,600	256	189	67
Portugal	8,400	8,400	84	62	22
Romania	9,600	9,600	96	71	25
Russia	80,000	80,000	800	590	210
Serbia	9,350	9,350	94	69	25
Slovak Republic	8,534	8,534	85	63	22
Slovenia	4,196	4,196	42	31	11
Spain	68,000	68,000	680	501	179
Sweden	45,600	45,600	456	336	120
Switzerland	45,600	45,600	456	336	120
Tajikistan	2,000	261	20	15	5
Turkey	23,000	23,000	230	170	60
Turkmenistan	200	139	2	1	1
Ukraine	16,000	15,360	160	118	42
United Kingdom	170,350	170,350	1,704	1,257	447
United States	200,000	200,000	2,000	1,475	525
Uzbekistan	4,200	3,832	42	31	11
Capital subscribed by members	**1,979,350**	**1,971,220**	**19,794**	**14,596**	**5,198**

26. RESERVES AND RETAINED EARNINGS

	2009 € million	2008 € million
Strategic reserve		
At 1 January	830	-
Transferred from retained earnings	-	830
Contribution to EBRD Shareholder Special Fund	(30)	-
At 31 December	**800**	830
Special reserve		
At 1 January	250	232
Qualifying fees and commissions	23	18
At 31 December	**273**	250
Loan loss reserve		
At 1 January	405	304
Transferred from retained earnings	373	101
At 31 December	**778**	405
General reserve – other reserve		
Revaluation reserve		
At 1 January	495	1,855
Net losses from changes in fair value	369	(1,708)
Net losses transferred to net profit due to impairment	288	517
Net gains transferred to net profit on disposal	(22)	(169)
At 31 December	**1,130**	495
Hedging reserve – cash flow hedges		
At 1 January	(52)	-
Losses from changes in fair value recognised in equity	23	(54)
Losses removed from equity and included in general and administrative expenses	14	2
At 31 December	**(15)**	(52)
Other		
At 1 January	180	172
Internal tax for the year	4	5
Transferred from retained earnings	-	3
At 31 December	**184**	180
General reserve – other reserve at 31 December	**1,299**	623
General reserve – retained earnings		
At 1 January	4,444	6,113
Qualifying fees and commissions	(23)	(18)
Transferred to general reserve	-	(3)
Transferred to loan loss reserve	(373)	(101)
Transferred from/(to) strategic reserve	30	(830)
Net loss after transfers of net income approved by the Board of Governors	(911)	(717)
General reserve retained earnings at 31 December	**3,167**	4,444
Total reserves and retained earnings at 31 December	**6,317**	6,552

In 2008 the Bank created a **strategic reserve** within members' equity to set aside a portion of net income to cover future capital requirements, other allocations and potentially to absorb any negative impact arising from adverse operational or financial developments until 2010 (the end of the CRR3 period). In addition, the strategic reserve provides a basis for future allocation and/or income decisions, and shall be considered in the context of the Bank's strategic and capital requirements during the next capital resources review (CRR4).

The **special reserve** is maintained, in accordance with Article 16 of the Agreement, for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities, until such time as the Board of Directors decides that the size of the special reserve is adequate. In accordance with the Agreement, €23 million (2008: €18 million) of qualifying fees and commissions recognised in the income statement was appropriated in 2009 and set aside to the special reserve.

In 2005, the Bank created a **loan loss reserve** within members' equity, to set aside an amount of retained earnings equal to the difference between the impairment losses expected over the life of the loan portfolio and the amount recognised through the Bank's income statement on an incurred loss basis.

The **general reserve** includes the retention of internal tax paid in accordance with Article 53 of the Agreement. This requires that all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank and which is retained for its benefit. At the end of the year internal tax amounted to €75 million (2008: €71 million).

The **hedging reserve** includes forward exchange contracts entered into by the Bank to hedge part of its estimated sterling operating expenditure for 2010 and 2011. The amounts hedged, their effective hedge rates and the percentage of the estimated expenditure covered are shown below:

2010 £90 million at an effective rate of €:£1.24 (50 per cent)
2011 £45 million at an effective rate of €:£1.22 (25 per cent)

At 31 December 2009 there was an unrealised mark-to-market loss on the above forward hedges, amounting to €15 million (2008: €52 million). This loss will be recorded in reserves until such time as the related hedged expenditure is incurred.

Reserves and retained earnings	2009 € million	2008 € million
Strategic reserve	800	830
Grant in relation to Specialised State Enterprise Chernobyl Nuclear Power Plant	-	135
Special reserve	273	250
Loan loss reserve	778	405
Unrealised gains	1,584	1,817
Total restricted reserves	3,435	3,437
Unrestricted general reserves	2,882	3,115
At 31 December	6,317	6,552

The Bank's reserves are used to determine, in accordance with the Agreement, what part of the Bank's net income will be allocated to surplus or other purposes and what part, if any, will be distributed to its members. For this purpose, the Bank uses unrestricted general reserves.

Article 36 of the Agreement relates to the allocation and distribution of the Bank's net income and states: "No such allocation, and no distribution, shall be made until the general reserve amounts to at least ten per cent of the authorised capital stock". This figure is currently €2.0 billion.

At the 2008 Annual Meeting the Board of Governors approved the allocation of the Bank's 2007 net income which included a grant of €135 million to be made to the Specialised State Enterprise Chernobyl Nuclear Power Plant. When the grant agreement was signed in February 2009, it was recorded below net profit in the Bank's income statement for financial reporting purposes.

At the 2009 Annual Meeting, the Board of Governors approved a reallocation of €30 million from the strategic reserve to the EBRD Shareholder Special Fund. This was paid in May 2009 and is also reflected in the Bank's income statement.

27. UNDRAWN COMMITMENTS AND GUARANTEES

Analysis by instrument	2009 € million	2008 € million
Undrawn commitments		
Loans	**5,766**	4,730
Share investments	**1,625**	1,477
At 31 December	**7,391**	6,207
Guarantees		
Trade finance guarantees[25]	**260**	238
Other guarantees[26]	**65**	24
At 31 December	**325**	262
Undrawn commitments and guarantees at 31 December	**7,716**	6,469

[25] Trade finance guarantees represent stand-by letters of credit issued in favour of confirming banks that have undertaken the payment risk of issuing banks in the Bank's countries of operations.
[26] Other guarantees include unfunded full or partial risk participations.

28. OPERATING LEASE COMMITMENTS

The Bank leases its Headquarters building in London and some of its Resident Office buildings in countries of operations. These are standard operating leases and include renewal options, periodic escalation clauses and are mostly non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the Bank's Headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. The last review was conducted in January 2007.

Minimum future lease payments under long-term non-cancellable operating leases and payments made under such leases during the year are shown below.

Payable	2009 € million	2008 € million
Not later than one year	24	22
Later than one year and not later than five years	92	84
Later than five years	167	174
At 31 December	**283**	280
Expenditure	21	23

The Bank has entered into sub-lease arrangements for two floors of its Headquarters building and a portion of its Moscow Resident Office. The total minimum future lease payments expected to be received under these sub-leases and income received during the year are shown below:

Receivable	2009 € million	2008 € million
Not later than one year	5	5
Later than one year and not later than five years	19	18
Later than five years	-	4
At 31 December	**24**	27
Income	5	5

29. STAFF RETIREMENT SCHEMES

Defined benefit scheme

A qualified actuary performs a full actuarial valuation of the defined benefit scheme at least every three years using the projected unit method. For IAS 19 purposes this is rolled forward annually to 31 December. The most recent valuation date was 30 June 2009. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Amounts recognised in the statement of financial position are as follows:

	2009 € million	2008 € million
Fair value of plan assets	166	100
Present value of the defined benefit obligation	(137)	(108)
	29	(8)
Unrecognised actuarial losses[27]	31	39
Prepayment at 31 December	**60**	31
Movement in the prepayment (included in "Other assets"):		
At 1 January	31	35
Exchange differences	3	(9)
Contributions paid	15	16
Final Salary Plan payment[28]	26	-
Total expense as below	(15)	(11)
At 31 December	**60**	31
The amounts recognised in the income statement are as follows:		
Current service cost	(13)	(14)
Interest cost	(8)	(7)
Expected return on assets[29]	7	10
Past service credit[30]	1	-
Amortisation of actuarial loss	(2)	-
Total included in staff costs	**(15)**	(11)

[27] These unrecognised actuarial losses represent the cumulative effect of the historical differences between the actuarial assumptions used in the production of these disclosures and the actual experience of the plan. The primary historical causes of the losses are an overall lower-than-expected investment return on plan assets, and a historical decline in the discount rate used to value the plan's liabilities.

[28] A one-off payment of €26 million (£24 million) was made into the Final Salary Plan at 31 March 2009.

[29] The actual return on assets during the year was €26 million (2008: loss of €19 million).

[30] The past service credit reflects the change in the Plan benefits structure, due to an increase in the retirement age from age 63 to age 65 and the estimate allows for 20 per cent of active members to withdraw their full accrued benefit at age 63 and at 64.

Principal actuarial assumptions used:

	2009	2008
Discount rate	5.60%	6.20%
Expected return on plan assets	6.50%	5.60%
Future salary increases	4.50%	4.25%
Average remaining working life of employees	15 years	15 years

Actuarial gains and losses in excess of a corridor (10 per cent of the greater of assets or liabilities) are amortised over the remaining working life of employees.

Actual asset allocation	2009 € million	Expected return per annum	2008 € million	Expected return per annum
Equities	92	8.40%	55	7.70%
Index-linked bonds	59	4.10%	35	3.00%
Commodities	9	4.40%	6	3.70%
Derivatives	5	4.40%	4	3.70%
Cash	1	0.50%	-	1.50%
Total	**166**	**6.50%**	100	5.60%

The approach used to determine the expected return on assets assumption is to set an assumption for the return on each of the main asset classes and then to weight these returns linearly according to the Plan's asset allocation. In this calculation, the returns for bonds are assumed to be the same as their initial yields. At 31 December 2009, these were 4.4 per cent per annum for gilts and 4.1 per cent per annum for Index-linked gilts. The expected returns on equities are assumed to be 4.0 per cent above the return on gilts. It has been assumed that commodities and hedge funds have the same long-term expected return as gilts.

Changes in the present value of the defined benefit obligation	2009 € million	2008 € million
Present value of defined benefit obligation at 1 January	**108**	126
Service cost	**13**	14
Interest cost	**8**	7
Effect of exchange rate movement	**8**	(34)
Actuarial loss arising due to changes in assumptions	**9**	4
Benefits paid	**(9)**	(9)
Present value of defined benefit obligation at 31 December	**137**	108

Changes in the fair value of plan assets are as follows:	2009 € million	2008 € million
Opening fair value of plan assets	**100**	154
Expected return	**7**	10
Asset gain/(loss) arising during the year	**18**	(29)
Effect of exchange rate movement	**9**	(42)
Contributions paid	**41**	16
Benefits paid	**(9)**	(9)
Present value of plan assets at 31 December	**166**	100

History of experience gains and losses	2009 € million	2008 € million	2007 € million	2006 € million	2005 € million
Defined benefit obligation	**137**	108	126	136	122
Plan assets	**166**	100	154	153	128
Surplus/(deficit)	**29**	(8)	28	17	6
Experience gains/(losses) on plan liabilities:					
Amount	**1**	4	(4)	3	7
Percentage of the present value of the plan liabilities	**1.1%**	3.9%	(3.6%)	1.4%	6.9%
Actual return less expected return on plan assets:					
Amount	**18**	(29)	6	3	14
Percentage of the present value of the plan assets	**11.0%**	(29.5%)	3.9%	1.3%	11.0%

Defined contribution scheme

The charge recognised under the defined contribution scheme was €9 million (2008: €9 million) and is included in "General administrative expenses".

Other long-term employee benefits

The Bank introduced a medical retirement benefit plan on 1 June 2008 to provide staff retiring from the Bank, aged 50 or over and with at least seven years service, with a lump sum benefit to help purchase medical insurance cover. The total charge for the year calculated under IAS 19 was €0.8 million (2008: €6.4 million).

30. RELATED PARTIES

The Bank has the following related parties:

Key management personnel

In sterling terms, salaries and other benefits paid to key management personnel in 2009 amounted to £7 million (2008: £7 million). This comprises short-term employee benefits of £6 million (2008: £6 million) and post-employment benefits of £1 million (2008: £1 million).

Key management personnel comprise: the President and Vice Presidents; members of the Bank's Executive Committee; Managing Directors; Corporate Directors; the Treasurer; the Director, Risk Management; the Controller; the Director of Human Resources; the Head of Internal Audit; and the CCO.

Venture capital associates

The Bank has a number of venture capital associates that it accounts for at fair value through profit or loss. At 31 December 2009, according to unaudited management information or the most recently audited financial statements from the investee companies, these venture capital associates had total assets of approximately €36.1 billion (2008: €35.0 billion) and total liabilities of approximately €27.3 billion (2008: €24.3 billion). For the year ended 31 December 2009, these associates had revenue of €6.8 billion (2008: €6.1 billion) and made a net profit of approximately €0.4 billion (2008: €1.4 billion).

In addition, the Bank has provided €108 million (2008: €120 million) of financing to these companies on which it received €4 million (2008: €6 million) of interest income during the year.

Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered under the terms of rules and regulations for each such Special Fund approved by the Bank's Board of Directors. At 31 December 2009 the Bank administered 14 Special Funds: 12 Investment Special Funds, seven of which also contain a technical cooperation component, and two Technical Cooperation Special Funds. Extracts from the audited financial statements of the Special Funds, together with a summary of contributions pledged by donor country, are included under the "Summary of Special Funds" on page 98.

31. OTHER FUND AGREEMENTS

In addition to the Bank's ordinary operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral grant agreements to provide technical assistance and investment support in its countries of operations. These agreements focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The resources provided by these grant agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

From its inception until 31 December 2009, the Bank has administered 184 technical cooperation fund agreements (2008: 165) amounting to an aggregate of €1.3 billion (2008: €1.1 billion). Of this pledged amount, funds received at 31 December 2009 totalled €1.2 billion (2008: €1.1 billion). The total uncommitted balance of the funds at 31 December 2009 was €224 million (2008: €182 million). In addition, the Bank has administered 90 project-specific technical cooperation agreements (2008: 87) totalling €59 million (2008: €55 million).

For the specific purpose of co-financing EBRD projects, the Bank has also administered 29 investment cooperation fund agreements (2008: 24) totalling €250 million (2008: €186 million), and two EU Pre-accession Preparation Funds totalling €35 million (2008: €35 million).

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account (NSA) was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for funding immediate safety improvement measures. At 31 December 2009, 17 contributors (2008: 16) had made pledges totalling €320 million (2008: €290 million), using the fixed exchange rates defined in the rules of the NSA.

At their Denver Summit in June 1997, the G-7 countries and the European Union endorsed the setting up of the Chernobyl Shelter Fund (CSF). The CSF was established on 7 November 1997, when the rules of the CSF were approved by the Board of Directors. It became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. At 31 December 2009, 24 contributors (2008: 24) had made pledges totalling €807 million (2008: €749 million) using the fixed exchange rates defined in the rules of the CSF.

In 1999, in pursuit of their policy to accede to the EU, Lithuania, Bulgaria and the Slovak Republic gave firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to 10 years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their administrator. The funds will finance selective projects to help carry out the first phase of decommissioning the designated reactors. They will also finance measures to facilitate the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency that are a consequence of the closure decisions. At 31 December 2009, 16 contributors (2008: 16) had made pledges to the Ignalina IDSF totalling €677 million (2008: €641 million); 11 contributors had made pledges to the Kozloduy IDSF totalling €583 million (2008: €505 million); and nine contributors had made pledges to the Bohunice IDSF totalling €375 million (2008: €316 million), using the fixed exchange rates defined in the rules of the funds.

In 2001 the Nordic Investment Bank hosted a meeting with participants from Belgium, Finland, Sweden, the European Commission and international financial institutions with activities in the Northern Dimension Area (NDA). At this meeting, participants agreed to establish the Northern Dimension Environmental Partnership (NDEP) to strengthen and coordinate financing of important environmental projects with cross-border effects in the NDA. On 11 December 2001, the Bank's Board of Directors approved the rules of the NDEP Support Fund and the role of the Bank as fund manager. At 31 December 2009, 12 contributors (2008: 11) had made pledges totalling €277 million (2008: €275 million).

Audit fees payable to the Bank's auditors for the 2009 audits of the technical cooperation and nuclear safety funds totalled €0.4 million (2008: €0.3 million). In addition, during 2009 the Bank's auditors, on a global basis, earned €0.2 million (2008: €0.1 million) in respect of due diligence and general business consultancy services funded by the technical cooperation funds. This represented 0.3 per cent of the total spend in 2009 (2008: 0.1 per cent) by the technical cooperation funds on services from consultancy providers in support of the Bank's investments in the countries of operations. These consultancy contracts are awarded in accordance with the Bank's standard procurement rules.

32. POST-STATEMENT OF FINANCIAL POSITION EVENTS

Movements in the financial markets in 2010 have resulted in an increase in the fair value of the Bank's equity portfolio due to movements in foreign exchange rates and listed equity prices. At 18 February 2010 the fair value of the share investment portfolio, net of equity derivatives, was €182 million higher than at 31 December 2009. Of this, €79 million would have been recognised in the income statement and €103 million would have been recognised in available-for-sale reserves. On 23 February 2010 the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be submitted for approval to the Annual Meeting of Governors to be held on 14-15 May 2010.

Summary of Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered under the terms of rules and regulations in respect of each such Special Fund approved by the Bank's Board of Directors. During 2009, the Bank administered 14 Special Funds: 12 Investment Special Funds, seven of which also contained a technical cooperation component, and two Technical Cooperation Special Funds. Extracts from the audited financial statements of the Special Funds are summarised in the following tables, together with a summary of contributions pledged by donor country.

Audit fees payable to the Bank's auditors for the 2009 audit of 14 of the Special Funds totalled €83,000 (2008: €77,000).

The objectives of the Special Funds are as follows:

The Balkan Region Special Fund
To assist the reconstruction of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Montenegro, Romania and Serbia.

The Baltic Investment Special Fund
To promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania.

The Central Asia Risk Sharing Special Fund
To provide a risk-sharing facility for SME credit lines, microfinance programmes, the Direct Investment Facility and the Trade Facilitation Programme in the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

The EBRD Shareholder Special Fund
To assist the Bank to achieve its mandate of promoting transition towards open market-oriented economies by preparing the way for future Bank-financed projects and improving the investment climate in the Bank's countries of operations.

The EBRD SME Special Fund
To assist the development of small and medium-sized enterprises in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

The EBRD Technical Cooperation Special Fund
To serve as a facility for financing technical cooperation projects in countries of operations of the Bank.

The Financial Intermediary Investment Special Fund
To support financial intermediaries in the countries of operations of the Bank.

The Italian Investment Special Fund
To assist the modernisation, restructuring, expansion and development of small and medium-sized enterprises in certain countries of operations of the Bank.

The Municipal Finance Facility Special Fund
To alleviate the financing problems of municipalities and their utility companies for small infrastructure investments in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

The Regional Development Initiative Special Fund
To provide a long-term contribution to sustainable socio-economic development across Azerbaijan and Georgia.

The Romania Micro Credit Facility Special Fund
To improve access to finance for micro and small enterprises in Romania.

The Russia Small Business Investment Special Fund and The Russia Small Business Technical Cooperation Special Fund
To assist the development of small businesses in the private sector in Russia.

The SME Finance Facility Special Fund
To alleviate the financing problems of small and medium-sized enterprises in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

Accounting convention – Investment Special Funds
The summary financial statements for the Investment Special Funds have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss.

Accounting convention – Technical Cooperation Special Funds
The summary financial statements for the Technical Cooperation Special Funds have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

INVESTMENT SPECIAL FUNDS

Extract from the income statement for the year ended 31 December 2009	Balkan Region Special Fund € 000	Baltic Investment Special Fund € 000	Central Asia Risk Sharing Special Fund € 000	EBRD Shareholder Special Fund € 000	EBRD SME Special Fund € 000	Financial Intermediary Investment Special Fund € 000	Italian Investment Special Fund € 000	Municipal Finance Facility Special Fund € 000	Regional Development Initiative Special Fund € 000	Romania Micro Credit Facility Special Fund € 000	Russia Small Business Investment Special Fund € 000	SME Finance Facility Special Fund € 000	Aggregated Investment Special Funds € 000
Operating profit/(loss) before provisions	97	(1,805)	104	(17,415)	(436)	(1,931)	(2,906)	(2,385)	95	3	(1,553)	(7,198)	(35,330)
Release/(charge) for provisions for impairment of loans and guarantees	-	-	-	-	10	(3,735)	1,861	-	(10)	(32)	(466)	-	(2,372)
Profit/(loss) for the year	**97**	**(1,805)**	**104**	**(17,415)**	**(426)**	**(5,666)**	**(1,045)**	**(2,385)**	**85**	**(29)**	**(2,019)**	**(7,198)**	**(37,702)**
Extract from the statement of comprehensive income for the year ended 31 December 2009													
Profit/(loss) for the year	97	(1,805)	104	(17,415)	(426)	(5,666)	(1,045)	(2,385)	85	(29)	(2,019)	(7,198)	(37,702)
Other comprehensive (expense)/income	-	(1,209)	-	8	-	(320)	(368)	-	(99)	-	(832)	-	(2,820)
Total comprehensive income/(expense)	**97**	**(3,014)**	**104**	**(17,407)**	**(426)**	**(5,986)**	**(1,413)**	**(2,385)**	**(14)**	**(29)**	**(2,851)**	**(7,198)**	**(40,522)**
Extract from the statement of financial position at 31 December 2009													
Loans	-	-	-	-	67	5,254	3,197	-	1,243	2,607	25,801	-	38,169
Provisions for impairment	-	-	-	-	(3)	(179)	(354)	-	(112)	(91)	(2,753)	-	(3,492)
	-	**-**	**-**	**-**	**64**	**5,075**	**2,843**	**-**	**1,131**	**2,516**	**23,048**	**-**	**34,677**
Share investments at fair value through profit or loss	-	-	-	-	-	-	237	-	-	-	-	1,852	2,089
Available-for-sale share investments	-	2,918	-	432	-	43	3,080	-	-	-	1,615	20	8,108
	-	**2,918**	**-**	**432**	**-**	**43**	**3,317**	**-**	**-**	**-**	**1,615**	**1,872**	**10,197**
Placements and other financial assets	7,699	1,991	9,616	136,229	8,382	19,967	14,649	19,636	2,670	14,288	28,878	36,213	300,218
Contributions receivable	-	-	-	-	-	-	-	10,293	-	1,561	-	33,225	45,079
Total assets	**7,699**	**4,909**	**9,616**	**136,661**	**8,446**	**25,085**	**20,809**	**29,929**	**3,801**	**18,365**	**53,541**	**71,310**	**390,171**
Other financial liabilities and provisions for impairment	47	6	52	8,530	268	3,812	957	395	6	119	3,339	1,822	19,353
Contributions	9,779	2,650	8,588	145,000	37,139	22,655	21,024	33,000	3,647	18,020	49,137	196,673	547,312
Reserves and retained earnings	(2,127)	2,253	976	(16,869)	(28,961)	(1,382)	(1,172)	(3,466)	148	226	1,065	(127,185)	(176,494)
Total liabilities and contributors' resources	**7,699**	**4,909**	**9,616**	**136,661**	**8,446**	**25,085**	**20,809**	**29,929**	**3,801**	**18,365**	**53,541**	**71,310**	**390,171**
Undrawn commitments and guarantees	**5,640**	**1,911**	**7,064**	**15,864**	**2,287**	**7,400**	**9,117**	**11,960**	**454**	**1,749**	**52,998**	**22,156**	**138,600**

TECHNICAL COOPERATION SPECIAL FUNDS

Extract from the statement of movement in fund balance and balance sheet for the year ended 31 December 2009	EBRD Technical Cooperation Special Fund € 000	Russia Small Business Technical Cooperation Special Fund € 000	Aggregated Technical Cooperation Special Funds € 000
Balance of fund brought forward	21	2,034	2,055
Disbursements	-	(1,498)	(1,498)
Other operating expenses	-	(282)	(282)
Contributions received	-	3,392	3,392
Balance of fund available	**21**	**3,646**	**3,667**
Cumulative commitments approved	1,066	76,627	77,693
Cumulative disbursements	(1,066)	(73,863)	(74,929)
Allocated fund balance	-	2,764	2,764
Unallocated fund balance	21	882	903
Balance of fund available	**21**	**3,646**	**3,667**

SPECIAL FUND CONTRIBUTIONS PLEDGED BY DONOR

	Balkan Region Special Fund € 000	Baltic Investment Special Fund € 000	Central Asia Risk Sharing Special Fund € 000	EBRD Shareholder Special Fund € 000	EBRD SME Special Fund € 000	Financial Intermediary Investment Special Fund € 000	Italian Investment Special Fund € 000	Municipal Finance Facility Special Fund € 000	Regional Development Initiative Special Fund € 000	Romania Micro Credit Facility Special Fund € 000	Russia Small Business Investment Special Fund € 000	SME Finance Facility Special Fund € 000	Russia Small Business Technical Cooperation Special Fund € 000	EBRD Technical Cooperation Special Fund € 000	Aggregated Special Funds € 000
Austria	276	-	-	-	-	-	-	-	-	-	-	-	-	-	276
British Petroleum (BP)	-	-	-	-	-	-	-	-	3,647	-	-	-	-	-	3,647
Canada	1,472	-	-	-	-	-	-	-	-	-	2,110	-	4,309	-	7,891
Denmark	750	571	-	-	-	-	-	-	-	-	-	-	-	-	1,321
EBRD Shareholders	-	-	-	145,000	-	-	-	-	-	-	-	-	-	-	145,000
European Union (EU)	-	-	-	-	-	-	-	33,000	-	-	-	196,673	-	-	229,673
Finland	-	551	-	-	-	-	-	-	-	-	-	-	-	-	551
France	-	-	-	-	-	-	-	-	-	-	6,257	-	4,980	-	11,237
Germany	-	-	2,389	-	-	-	-	-	-	-	7,885	-	3,025	-	13,299
Iceland	-	27	-	-	-	-	-	-	-	-	-	-	-	-	27
Italy	-	-	-	-	-	-	21,024	-	-	-	7,154	-	1,360	-	29,538
Japan	-	-	-	-	-	-	-	-	-	-	18,032	-	3,295	-	21,327
Netherlands	-	-	-	-	-	9,500	-	-	-	-	-	-	-	-	9,500
Norway	1,568	494	-	-	-	-	-	-	-	-	-	-	-	-	2,062
Romania/EU	-	-	-	-	-	-	-	-	-	18,020	-	-	-	-	18,020
Russia Small Business Investment Special Fund	-	-	-	-	-	-	-	-	-	-	-	-	3,392	-	3,392
Sweden	-	1,007	-	-	-	-	-	-	-	-	-	-	-	-	1,007
Switzerland	4,218	-	6,199	-	-	-	-	-	-	-	2,081	-	1,244	-	13,742
Taipei China	1,495	-	-	-	-	12,308	-	-	-	-	-	-	-	-	13,803
United Kingdom	-	-	-	-	-	-	-	-	-	-	-	-	12,824	247	13,071
United States of America	-	-	-	-	37,139	847	-	-	-	-	5,618	-	29,695	-	73,299
Total at 31 December 2009	**9,779**	**2,650**	**8,588**	**145,000**	**37,139**	**22,655**	**21,024**	**33,000**	**3,647**	**18,020**	**49,137**	**196,673**	**64,124**	**247**	**611,683**

Management's responsibility
23 February 2010

Management's report regarding the effectiveness of internal controls over external financial reporting

The management of the European Bank for Reconstruction and Development ("the Bank") is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this *Financial Report*. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The financial statements have been audited by an independent accounting firm, which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. Management believes that all representations made to the external auditors during their audit were valid and appropriate. The external auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with IFRS. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting – which are subject to scrutiny and testing by management and internal audit, and are revised as considered necessary – support the integrity and reliability of the financial statements.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank's Board of Directors has appointed an Audit Committee, which assists the Board in its responsibility to ensure the soundness of the Bank's accounting practices and the effective implementation of the internal controls that management has established relating to finance and accounting matters. The Audit Committee is comprised entirely of members of the Board of Directors. The Audit Committee meets periodically with management in order to review and monitor the financial, accounting and auditing procedures of the Bank and related financial reports. The external auditors and the internal auditors regularly meet with the Audit Committee, with and without other members of management being present, to discuss the adequacy of internal controls over financial reporting and any other matters that they believe should be brought to the attention of the Audit Committee.

The Bank has assessed its internal controls over external financial reporting for 2009. Management's assessment includes the Special Funds and other fund agreements referred to in pages 98-101 of the *Financial Report 2009*, and the retirement plans. However, the nature of the assessment is restricted to the controls over the reporting and disclosure of these funds, rather than the operational, accounting and administration controls in place for each fund.

The Bank's assessment was based on the criteria for effective internal controls over financial reporting described in the "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based upon this assessment, management asserts that, at 31 December 2009, the Bank maintained effective internal controls over its financial reporting as contained in the *Financial Report 2009*.

The Bank's external auditors have provided an audit opinion on the fairness of the financial statements presented within the Financial Report. In addition, they have issued an attestation report on management's assessment of the Bank's internal control over financial reporting, as set out on page 104.

Thomas Mirow
President

Manfred Schepers
Vice President, Finance

European Bank for Reconstruction and Development
London

Report of the independent auditors

To the Governors of the European Bank for Reconstruction and Development
We have examined management's assessment that the European Bank for Reconstruction and Development ("the Bank") maintained effective internal controls over financial reporting as contained in the Bank's *Financial Report 2009*, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission. Management is responsible for maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion over the effectiveness of the Bank's internal control over financial reporting, based on our examination.

We conducted our examination in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised). Our examination included obtaining an understanding of internal control over financial reporting, evaluating the management's assessment and performing such other procedures as we considered necessary in the circumstances. We believe that our work provides a reasonable basis for our opinion.

A bank's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with the authorisation of the bank's management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, management's assertion that the Bank maintained effective internal control over financial reporting, as contained in the Bank's *Financial Report 2009*, is fairly stated, in all material respects, based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission.

This report, including the opinion, has been prepared for, and only for, the Board of Governors as a body in connection with management's attestation for maintaining effective internal controls over financial reporting and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2010

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development

Report on the financial statements

We have audited the financial statements of the European Bank for Reconstruction and Development ("the Bank") for the year ended 31 December 2009 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in members' equity, the statement of cash flows, the accounting policies, risk management and the notes to the financial statements ("financial statements").

President's responsibility for the financial statements

The President is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank at 31 December 2009 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Other matters

We also report to you if, in our opinion, the financial results section of the *Financial Report* is not consistent with the financial statements, if the Bank has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the *Financial Report* and consider whether it is consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the highlights, financial results, additional reporting and disclosures and Summary of Special Funds. Our responsibilities do not extend to any other information.

This report, including the opinion, has been prepared for, and only for, the Board of Governors as a body in accordance with Article 24 of the Agreement Establishing the Bank dated 29 May 1990, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2010

Notes

European Bank for Reconstruction and Development
One Exchange Square London EC2A 2JN United Kingdom

Switchboard/central contact
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
SWIFT: EBRDGB2L

Information requests
For information requests and general enquiries, please use the information request form at www.ebrd.com/inforequest

Project enquiries
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
Email: projectenquiries@ebrd.com

Requests for publications
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
Email: pubsdesk@ebrd.com

Web site
www.ebrd.com

Controller's Office
Joyce Hossinger, Wendy Kang, Nigel Kerby

Editorial
Lucy Plaskett, Jane Ross, Natasha Treloar, Helen Valvona

Design and Production
Tangible
Daniel Kelly

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